IDEAS ON LIBERTY

- Don't Tax the Internet
- Nothing Left to Buy?
- Economic Insecurity: Are We the Enemy?
- Bastiat's Birthday

JUNE 2000

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IDEAS ON LIBERTY

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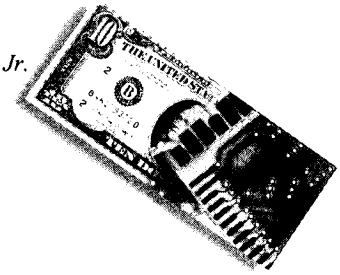

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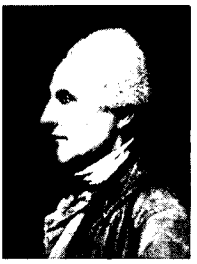

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Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to 1998. The magazine is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

Bastiat's Birthday

Frederic Bastiat was born 199 years ago this month. If anyone can be described as the guiding spirit of the Foundation for Economic Education, it would be Bastiat. Thanks to the Foundation, his works, *The Law, Economic Sophisms, Economic Harmonies*, and *Selected Essays on Political Economy,* have been kept in print. They remain some of the best writing on the workings of the free society and the fallacies of statism, or what he called "legal plunder."

Bastiat is most famous for his essays defending free international trade, pointing out the unseen harm of intervention, and satirically puncturing statist fallacies. His facility at explaining complex ideas clearly and entertainingly won him plaudits from his intellectual heirs. Henry Hazlitt called him a "master of the *reductio ad absurdum.*" F. A. Hayek dubbed him a "publicist of genius." Murray Rothbard said he was "a truly scintillating advocate of an untrammelled free market."

If one reads only his essays, however, one is in danger of seeing Bastiat as "just" a highly effective economic journalist, although that is no mean feat. The essays are but the tip of the iceberg. Beneath the surface is Bastiat's comprehensive view of law and political economy, which he did not put in writing until his final days. In *Economic Harmonies*, Bastiat shows that the question for economists is *not*: Is there natural beneficent economic regularity? It can't be doubted! The signs are everywhere! Paris gets fed—*everyday!*—permitting everyone to enjoy an array of consumer goods that no one person alone could produce in a thousand years. The economist's job is to explain *how* that unplanned regularity can exist.

Israel Kirzner, in *The Economic Point of View*, notes that Bastiat's approach was not shared by all economists. J. E. Cairnes, for example, thought Bastiat was unscientific because he did not first prove the existence of regularity. For Cairnes, "science has no foregone conclusions." Kirzner sides with Bastiat: recognition of "the large degree of efficiency empirically evinced by the [market] system . . .

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hardly deserves the suspect position of a 'foregone conclusion.'" Did Newton have to ask *if* objects fall to the ground?

Three decades after his death, Bastiat's approach was incorporated into Austrian economics. In his magnum opus, *Human Action*, Ludwig von Mises put himself in the Bastiat tradition when he wrote, "In the course of social events there prevails a regularity of phenomena to which man must adjust his actions if he wishes to succeed."

Bastiat managed to produce much of his impressive volume of work while battling for freedom in the French National Assembly during the turmoil that began in the revolutionary year of 1848. Gravely ill, he struggled desperately to expose the seductive fallacies of socialism and authoritarianism. He died of tuberculosis in 1850, just before Napoleon III transformed the Second Republic into an empire.

There was no greater champion of liberty. Bastiat's legacy continues to inspire.

* * *

It is generally thought that the airline industry was deregulated many years ago. This misconception permits people to believe that poor service is what competition has wrought. Robert Poole resolves the paradox.

Can you tell how much competition there is in an industry by the number of firms? That's how the lawyers in the Justice Department's Antitrust Division sort it out. Henry Demmert relates an experience from his days in the division.

A prominent school of constitutional interpretation holds that judges should look to the intent of the framers. Easier said than done, writes Wendy McElroy.

The War on Drugs moves into the realm of free speech with legislation pending in the U.S. Congress. Paul Armentano warns that the First Amendment seems slated to be the next war casualty.

Throughout history, trade and freedom have gone hand in hand because trade is what people do when left alone. Thomas DiLorenzo surveys some of the distinguished people and events in the annals of the free-trade struggle.

The warrior societies of the past did not disprove the natural law that human beings must labor to satisfy their wants. Far from it, as Frederic Bastiat explains in the chapter titled "War" from his treatise, *Economic Harmonies*, which we reprint in honor of the 199th anniversary of his birth.

Since the marketplace is *us,* those who complain about capitalism are really complaining not about a system but about free people. Christopher Lingle reinterprets common grievances in that light.

It's no accident that capitalism evolved at a particular place at a particular time and not in other places. Jim Peron examines the prerequisites for the emergence of freedom.

Most people would agree that no one should be punished for the offenses of another. So why does the law increasingly ignore that principle? Russell Madden ponders the question.

Every religion teaches the Golden Rule. Yet just as commonplace is the disdain for business. William Peterson puzzles at the failure to see the connection between two simple ideas.

In the columns department, Donald Boudreaux takes another look at greed. Lawrence Reed finds some good arguments against taxing electronic commerce. Doug Bandow surveys Kosovo after NATO's triumph. Dwight Lee says it's the margin that matters. Mark Skousen delves into the minds of millionaires. Russell Roberts doubts the Garden of Eden is imminent. And William Shughart, also hearing demands for Internet taxation, shouts back, "It Just Ain't So!"

In the book section, reviewers have perused volumes on foreign policy, Microsoft, harmful humanitarianism, environmental cancer, orphanages, and global capitalism.

—SHELDON RICHMAN

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Thoughts on Freedom

by Donald J. Boudreaux

The Selfishness of the Unselfish

Several years ago, I encountered a woman at a cocktail party in Atlanta who was active in that city's historical-preservation movement. To make conversation, I asked why she thought that stricter historical-preservation regulations were required.

"Because greedy developers tear down too many old and beautiful homes or renovate them in ways that destroy their historical integrity," she replied.

"Why do you call these developers 'greedy'?" I asked.

"Because they care only about money. They don't care about beauty or history," she answered.

"But because they build houses to make money they must take account of the tastes and demands of their customers, who either cannot afford or do not want to live in historically accurate old houses. What's wrong with that?"

"Everything!" she shot back. "Most home buyers today have dreadfully bad taste."

"I'm curious: what kind of home do you live in?" I inquired.

"An 1893 Victorian, perfectly restored," she answered proudly.

I regret that my desire to avoid confrontation caused me then to mumble a limp reply and fade off to fetch another glass of wine.

But the exchange is instructive. Amazingly, this woman believed herself to represent the forces of good and altruism in a battle against the forces of evil and greed. And I bet that if the local newspaper had written a story about her efforts on behalf of historical preservation, she would have been portrayed as a modern Joan of Arc. But it is she who is the truly greedy one. Not only was she blithely willing to impose her own tastes on others, but the policies she championed—by reducing the supply of housing in Atlanta—conveniently increased the value of her own home. She was eager to use government to force countless other people—in exchange for nothing from her—to subsidize her aesthetic sensibilities and to enhance her balance sheet.

That's genuine greed.

Sadly, the attitude of my acquaintance in Atlanta is merely one small case in a widespread epidemic that might be called "the selfishness of the unselfish." The selfishness of the unselfish is found whenever the self-proclaimed enemies of greed bemoan, with one breath, the base motivations that allegedly drive capitalism, and then, with their next breath, propose policies that are monuments to vulgar selfishness.

The most easily spotted strain of this disease is that which compels its host to level charges of greed against others merely as a means of clearing the way for government policies that serve the host's own narrow self-interest. This is the strain that infected my acquaintance in Atlanta: she liked old homes and hypocritically called "greedy" anyone who built any home that she disliked.

This is the strain that also triggers protectionism, minimum-wage legislation, and any

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Donald Boudreaux is president of FEE.

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number of other policies that materially benefit some people at the expense of others. Perhaps surprisingly, much of modern-day environmental policy is of this sort.

Consider that many of today's environmentalists are among the most vocal opponents of "capitalist greed." But environmental policies too often provide benefits to environmentalists (for example, protecting land from development so that it is available for hiking) at the expense of consumers who would benefit from the greater supply of goods and services that would be available were it not for these output-reducing policies.

My point here is not that preserving some land from development is undesirable. Rather, it is that those who advocate such environmental policies in the name of opposing "capitalist greed" are themselves motivated by their own greed. And it is an especially galling greed. Not only are those who are motivated by it blind to their own avarice, but they—unlike entrepreneurs—satisfy their selfishness through force. They use government to take from others and give to them. Entrepreneurs, in contrast, satisfy their self-interest by giving things of value in exchange for what they receive from consumers.

The other strain of the "selfishness of the unselfish" disease is a bit (but just a bit) harder to spot. This strain does not lead its hosts to advocate harmful policies that bestow material benefits on them. Instead, it simply encourages its hosts selfishly to emote rather than to think rationally about various policies.

It is much more difficult to study an issue and to think it through thoroughly than to react emotionally. Reacting emotionally is a cheap way to strut your sensibilities in front of others as well as to avoid the often arduous intellectual challenge of learning the relevant details, studying the alternative theories, and weighing all the pros and cons before reaching a conclusion. Doing this hard work requires diligence. To express an opinion without undertaking this effort is supremely selfish, for to do so is to steal the gratification that comes with "taking a stand" without paying the price of assuring that the stand taken is sound.

Consider, for example, the well-meaning nineteenth-century reformers who sought to improve immigrant housing in America by mandating higher housing quality.

> The kinds of reforms being promoted in the nineteenth century did not expand the slum-dwellers' options but reduced them. Since better housing mandated by law cost more money, immigrant slum-dwellers now had to devote a higher percentage of their incomes toward purchasing more expensive housing with features that would be more pleasing to third-party observers, rather than make the trade-offs that they themselves would have preferred with their own money.*

These reformers selfishly indulged in campaigns that made them feel good about themselves, without bothering to explore the full consequences of the schemes they foisted on innocent third parties. While the reformers got good press and a warm sense of self-satisfaction, the welfare of immigrants deteriorated as a consequence of these reformers' selfish indulgence of their own thoughtless notions of reality.

The same is true of today's "reformers" who clamor for banning imports of goods made in factories that employ children. These reformers selfishly enjoy the rush of satisfaction that comes from moral posturing without once stopping to trace the consequences of the policies they advocate.

Pay attention to the protestations of those who demand greater government involvement in the economy—particularly those who bemoan the greed that allegedly characterizes capitalism. You'll find that almost always the most outspoken opponents of greed are its greatest patrons. □

*Thomas Sowell, *The Quest for Cosmic Justice* (New York: Free Press, 1999), p. 128.

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IDEAS ON LIBERTY
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Internet Commerce Should Be Taxed?

It Just Ain't So!

Virginia Governor James Gilmore, chairman of the Advisory Commission on Electronic Commerce, hoped that the group would act quickly to make permanent Congress's 1998 three-year moratorium on new Internet taxes. But faced with a Clinton administration policy statement objecting to any move that would ban the collection of sales taxes on online purchases, a letter signed by 49 economists contending that Internet taxes are necessary to restore "neutrality" to the sales tax code, and the testimony of mayors and other public officials lamenting the billions in revenue state and local governments stand to lose if the tax moratorium is extended, the commission adjourned its recent meeting in San Francisco without reaching agreement. Given the strength of pro-tax forces being mobilized, it is doubtful that the two-thirds majority required for the commission to make a recommendation preserving the Internet tax haven can ever be achieved.

Economist Paul Krugman has joined the chorus clamoring for closing the e-tax loophole. Writing in the February 12 *New York Times*, he likens today's tax-free Internet to a kind of default "industrial policy" for the Digital Age. He ought to know better.

That new taxes on e-commerce are being pushed when the economy is booming, sales tax receipts have swollen, and most state government budgets are awash in black ink undercuts most of what passes for serious analysis of Internet tax policy. Indeed, the palpable absence of a budgetary justification for taxing electronic commerce suggests that the moratorium was enacted, not on the basis of principle, but rather because the tax writers in Congress have not yet figured out how to structure and administer e-taxes so as to maximize the Internet tax take—or found a politically acceptable way for the federal government to share in the loot.

Of course, the pro-tax forces contend that closing the loophole would not impose a new tax but simply eliminate existing distortions in the sales-tax code, that is, ensure that the tax laws do not favor one segment of the retail trade over another. Consumers buying products online currently enjoy the same immunity from state and local sales taxes the U.S. Supreme Court has carved out for mail-order catalog sales. The Court ruled earlier this decade that requiring retailers located in one state to collect sales taxes from consumers in another unconstitutionally burdens interstate commerce. Hence, sales taxes are due on mail-order and Internet purchases only if the retailer has a substantial "physical presence" in the customer's state of residence. Although buyers in every state with a sales tax are obliged to report and pay "use" taxes on items purchased elsewhere, few consumers voluntarily comply.

As a result, local retailers are supposedly placed at an unfair competitive advantage relative to Internet and mail-order retailers, and including such purchases in the tax code would merely restore a level retail playing field. But the economists who support taxing the Internet to eliminate perceived distortions are living in a fiscal fantasyland. Except insofar as "reform" generates more revenue or confers benefits on key electoral constituencies, government has no interest in designing a neutral tax code, nor in benevolently broadening the tax base so that tax rates can be lowered. Rather, the flesh-and-blood politicians who function in a world light years distant from the policy prescriptions of public-finance textbooks are motivated by more narrowly self-interested objectives.

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Barrier to Tax Abuse

Fiscal federalism is a stubborn constitutional barrier to the parochial politics of taxing and spending. As is the case in ordinary markets, competition among the nation's 30,000 separate state and local tax jurisdictions helps hold tax rates down to their cost-effective minimum. If one jurisdiction imposes a sales-tax rate that is too high compared with the quantity and quality of public services those taxes help finance, its tax base will tend to shrink as businesses and consumers relocate to other jurisdictions with lower taxes, better roads and schools, or both. But moving is costly. The ability to avoid high local taxes by making purchases over the Internet or through mail-order catalogs supplies an alternative margin of competition that forces governments to be more fiscally responsible.

Access to the Internet allows every consumer to live on a "virtual border," thereby making it economical to exploit even small differences in price. The ability to avoid high local taxes by making purchases online is particularly beneficial to low-income consumers because sales taxes are among the most regressive ways of raising revenue: poor people consume greater percentages of their incomes than those who are financially better off.

Opposition to e-taxes is not, as Krugman puts it, based on a "slash-taxes-to-starve-the-bureaucrats theory." Tax competition instead promotes a situation in which taxes will tend to mirror interjurisdictional differences in the demands for government services. Policies that promote tax rate "harmony" make it easier for governments to ignore these heterogeneous taxpayer preferences and to levy taxes that are excessively high.

Retailer Response

Local bricks-and-mortar retailers that are placed at a competitive disadvantage by high local sales taxes do not have to stand idly by. They can get business lost to catalog sales or to the Internet back by providing services consumers value—and are willing to pay for. The opportunity to see and touch items on display, to try them on, to take advantage of product demonstrations and other point-of-sale assistance in making their selections, and to accept immediate delivery are options not available to online shoppers. Traditional retailers can also respond to Internet competition by lowering their prices so that, inclusive of sales tax, the prices they charge are equal to or less than those charged by out-of-state retailers, which normally add hefty shipping and handling charges to their customers' orders.

That is how competition is supposed to work. When the playing field is instead leveled by forcing Internet companies to raise their prices by collecting sales taxes and remitting them to the treasury of the state where the purchaser resides, the competitive market process is short-circuited and taxpayers become more vulnerable to exploitation by big government. Paul Krugman apparently thinks that a tax-free Internet has a harmful effect on retail competition, but he ought to be more concerned with the damage done to intergovernmental competition if the loophole is closed.

—William F. Shughart II
University of Mississippi

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JUNE 2000

Another Reason for Airport Privatization

by Robert W. Poole, Jr.

In several ways, the specter of re-regulation of the airlines raised its head in 1999. A number of bills in Congress aimed at increasing smaller airlines' access into major hub airports like Chicago's O'Hare by giving such airlines (or service from smaller cities) legal preference over other new service. And several other bills would have created a "passenger's bill of rights" imposing new federal controls on the terms and conditions of airline service.

Fortunately, none of these measures was enacted, leaving intact the enormous consumer benefits of the Airline Deregulation Act of 1978. Thanks to the hands-off policy created by that measure, air travelers save some $19 billion per year over what they would have paid had federal control of routes and fares remained in effect. While the measures considered by Congress would not have brought back total government control, they would have put us on a slippery slope toward government—rather than market—decision-making about who can fly when, where, and at what price.

That said, however, it is clear to most frequent flyers that today's airline service leaves much to be desired. Record-high levels of delay, overcrowded planes, less meal service, new restrictions on carry-on baggage . . . flying in many ways is not what it used to be. But if government regulation is a cure worse than the disease, what hope is there for beleaguered air travelers?

The answer is supposed to be competition. If you don't like the quality and price of Airline A, take your business to Airline B instead. Surely *some* profit-seeking entrepreneurs will attempt to offer a better combination of price and performance to appeal to those frustrated by today's typical airline service. And indeed, there are some such alternatives. For millions of people, the low-fare, no-frills, but highly reliable service of Southwest is a viable alternative. For others, Midwest Express offers a much more luxurious form of service, albeit at a somewhat higher fare. But for millions of other air travelers, innovative airline service offerings are very hard to find. This is especially true at many cities with a single large airport where the vast majority of service is provided by a single airline's major hub—for example, Atlanta (Delta), Minneapolis (Northwest), and Pittsburgh (U.S. Air).

Why haven't airline entrepreneurs broken into such markets, offering clearly different alternatives for air travelers? It turns out that many have tried, but have had great difficulty obtaining gates at such airports. And that leads us to one of the key respects in which airline deregulation is an "unfinished revolution." While airline service itself has been freed of economic regulation and allowed to become a dynamic industry, U.S. airports are still run in the old-fashioned, static, bureaucratic manner typical of the pre-deregulation

Robert Poole, Jr., is president of the Reason Foundation and a long-time transportation policy researcher. *Copyright 2000 Reason Foundation.*

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era. Among other things, this means that their management style is more passive and risk-averse than that of the world's growing body of privatized airports, now numbering more than 100 (and including the main airports in such cities as Auckland, Buenos Aires, Dusseldorf, Johannesburg, London, Melbourne, and Rome).

Privatized airports (and also leading "corporatized" airports such as Amsterdam and Frankfurt) are run as businesses, intended to make a profit by aggressively developing various profit centers, tailoring their services to many different groups (including airlines, originating passengers, transfer passengers, meeters and greeters, and employees). Recent research at Oxford University has shown that the management approach of privatized airports is—not surprisingly—significantly more passenger-friendly than that of traditionally managed airports.

Willing to Take Risks

Privatized airport managements are also more willing to take on the risk of new investments—such as the creation of new terminal space to provide gates for new-entrant airlines. And this brings us back to the question of increased competition by such airlines, especially in "fortress hub" cities where air travelers today have very limited options. Under typical U.S. airport management practice, the major incumbent airlines have signed long-term gate-lease agreements (making them "signatory" airlines). From the standpoint of risk-averse airport management, these long-term agreements give them a more-or-less guaranteed revenue stream to pay off the bonds they issue to build the terminal facilities. But in exchange for this security, they give up substantial control to the signatory airlines. Usually, the long-term agreements give these airlines what amounts to a veto power over any terminal expansions. That means when new-entrant airlines want to start service at such an airport, there are often no gates available at all—or there is only "remnant" space available at odd hours at gates leased by the signatory airlines, which they might make available to the newcomer, at two to three times as much as what the incumbent is paying under its lease!

These barriers to entry are well known within aviation circles. In October 1999, the U.S. Department of Transportation (DOT) released an important report, "Airport Business Practices and Their Impact on Airline Competition," explaining how all this works and concluding that, indeed, "Airport business practices play a critical role in shaping airline competition. Access at many of the nation's airports is limited . . . because of long-established airport business practices."

What the report did not do was to contrast these business practices with those of corporatized and privatized airports around the world. Had DOT's researchers done so, they would have found that an airport run as a for-profit business does not cede de facto control over its facilities to its largest customers. At most such airports the gates remain under the control of the airport company and are allocated hour by hour to individual airlines, as needed. (That is why at many European airports, and at the privately run Terminal 3 in Toronto, the airline signage at each gate is electronic, permitting it to be changed in moments from one airline's name to another.) And that is how gates will be managed at the new International Arrivals Terminal at JFK in New York—a $1 billion project being developed and operated by a private consortium including the for-profit company that owns and operates Amsterdam's Schiphol Airport. The IAT consortium is taking the entire risk of keeping the gates occupied because it wants the management flexibility to get the most value out of each and every gate.

In short, the answer to today's serious limitations on new airline entry at U.S. airports is outright privatization, in which existing airport owners (cities, counties, and states) sell or long-term lease these facilities to professional airport firms.

Real airline competition is being impeded by the outmoded management approach of U.S. airports. Much of the world is moving to a new paradigm—the airport as a for-profit enterprise—that is far more consistent with a dynamic, competitive airline market. It is high time the United States did likewise. □

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JUNE 2000

Merger Policy Fails Hi-Tech Test

by Henry Demmert

A true story: In the early 1980s I worked as an economist in the Antitrust Division of the Department of Justice. In my first assignment I was paired with one of the division's experienced lawyers to evaluate a merger between two electronics firms. My first step was to visit the lawyer, introduce myself, and begin preliminary discussion of the task before us. We got right down to business. Or at least he did, insisting that this was clearly an anticompetitive merger and our job was to block it. I asked how he had reached this conclusion so quickly. By what measure, which I surely had missed, was it so clear that the merger would lessen competition? His response: "There are 22 competitors in the market now. If we allow this merger, there will only be 21 left. That's less competition."

I'll be the first to admit that this particular lawyer's terribly naïve view of competition is not representative of everyone at the Antitrust Division, and certainly not of the economists. But it is instructive as an extreme version of the view of competition that the Division uses in formulating antitrust policy, especially merger policy. It is a view that is enshrined in the Division's merger guidelines.

The guidelines were first introduced in 1968 in an attempt to eliminate what, at the time, was a great deal of uncertainty over the kind of merger the antitrust authorities would challenge. Although these guidelines have often been revised, the last time in 1994, the essential approach remains unchanged. The focus is on "market structure." That is, the antitrust authorities define a market, geographically and by product, in which the merging firms compete. They then measure the market shares of each of the merger partners as well as the overall level of "concentration" in the market—the extent to which a few large suppliers account for a substantial share of total market sales. If the combined shares of the merger partners is too high or the market is too concentrated, the merger will likely be challenged by the feds. Their fear is that too large a firm will wield enough "market power" to raise prices or that a market with a few significant suppliers is susceptible to collusion.

This view is essentially static and backward-looking. It is questionable, at best, when applied to steel and autos, but it is downright misleading when applied to the rapidly changing world of high technology. The recently proposed merger between MCI WorldCom and Sprint illustrates the wrong-headedness of the current approach.

MCI WorldCom and Sprint are the second and third largest suppliers of U.S. long-distance telephone service. The combined firm would have a market share of 35 percent. With AT&T's 45 percent share, the merger would leave a highly concentrated market in which the two largest suppliers account for 80 percent of all long-distance service. By the standard measures, the merger violates the

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guidelines. Indeed, shortly after it was announced, one federal regulator expressed concern about greater concentration in long-distance services and warned that "any further consolidation among the major [long-distance] providers would be intolerable."[1] But defining the relevant market as "long-distance services" is arbitrary and misleading.

Dynamic Environment

Deregulation and technology are interacting to create an environment in which the only certain thing we can say about the telecommunications market of the future is that it will look nothing like it does today. The Telecommunications Act of 1996 eliminated the archaic regulatory barriers that once separated local phone service, long-distance phone service, and cable, while new technologies are erasing the lines between almost all forms of communication and information-sharing.

Moreover, with the global reach of the Internet, and with foreign giants such as Germany's Deutsche Telekom and Japan's NTT now free to enter the U.S. market, what is emerging is a global telecommunications market in which the major players, to be competitive, will have to offer "all-distance" wireless broadband service not just for voice, but for data and video as well.

Firms are scrambling to remain competitive. The spate of recent mergers in telecommunications reflects the emerging new realities. Bell Atlantic merged with Nynex and GTE, which had acquired BBN, a long-distance and Internet provider. U.S. West, one of the Baby Bells, merged with Qwest, another Internet and long-distance provider. SBC Communications acquired two former Baby Bells, Pacific Bell and Ameritech. AT&T acquired TCI Cablevision and is in the process of merging with Media One. And, of course, there is AOL's proposed blockbuster acquisition of Time Warner Communications.

The trend is global as illustrated by the proposed acquisition by British Vodaphone of Germany's Mannesmann, which analysts believe will "unleash a flurry of deals among other wireless companies seeking to compete on a global scale."[2]

As separate entities, MCI WorldCom and Sprint would likely founder in this brave new world; combined they will create a more effective competitor. To think that they would have enough market power to raise prices, or that collusion is a danger in such a rapidly changing environment, requires a real stretch of the imagination.

Properly understood, competition is not a static, zero-sum battle for shares in an arbitrarily defined market. Rather it is a process of discovery and innovation, a process that continually expands existing markets and opens up new ones. In the world of high technology, where this process is especially rapid, the old models no longer apply. To formulate merger policy as if they did would be to stifle the creative energy that true competition channels into social benefits. □

1. "FCC Staff Member Objects To Sprint-MCI Buyout Plan," *Wall Street Journal*, December 13, 1999.
2. "Vodaphone Deal May Spur Globe Roaming," *Wall Street Journal*, February 4, 2000.

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IDEAS ON LIBERTY
JUNE 2000

Don't Tax the Internet

On a recent visit to the Roman ruins at Volubulis, Morocco, I noticed a magnificent stone arch the city's officials erected nearly 2,000 years ago. Etched in stone and still eminently readable were Latin words thanking Emperor Caracalla for two things: protecting the city from invaders and exempting the citizens from taxation. Please excuse the ancient redundancy.

Caracalla was not generally known for his kindnesses. Indeed, he brutalized and persecuted many citizens of the Roman Empire. But that tax policy is the perfect answer to a burning question in America today: *Should states and localities tax the Internet?* What Caracalla did for Volubulis, our politicians ought to do for the Web. They should leave it alone. (Unfortunately, later Roman emperors *did* tax Volubulis and that's one reason why it's in ruins).

Sales over the Internet are fast capturing the attention of tax-hungry politicians, but collecting sales taxes on Internet purchases poses logistical, as well as constitutional, problems. If 7,500 jurisdictions with sales taxes were to apply their own tax collection regimes to the Internet, America would experience tax pandemonium. To prevent chaos and allow for time to think about the issue, Congress in 1998 passed the Internet Tax Freedom Act, which instituted a national three-year moratorium on any taxes directed at electronic commerce.

State and local officials aren't upset because they're losing revenue. They're upset because they're missing out on a *new* source of revenue. South Dakota Governor William Janklow startled an audience when he declared that unless steps are taken to immediately tax online purchases, he may "disrupt interstate commerce" by sending out state highway patrol officers to pull over "little brown trucks," inspecting packages for those originating out of state, and then "following the packages" to their destination to force his residents to pay the state's sales tax.

The Internet taxation debate has produced tough questions that must be answered if this promising new sphere of enterprise is to grow unmolested by government. Here are a few of those questions, with some suggested answers.

Has the growth of tax-free Internet sales hurt government revenues?

State governments are awash in tax revenues, with a total surplus this year of $36 billion. *Investor's Business Daily* notes that state revenues grew 227 percent and local revenues grew 193 percent between 1980 and 1995.

Raymond J. Keating, chief economist for the Small Business Survival Committee, pointed out in testimony last year that "federal, state and local governments have lost no revenues to expanding e-commerce, but have gained revenues due to economic growth driven in part by information technologies."

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Instead of always worrying about whether government is getting enough of other people's money, we ought to be concerned about whether people are able to keep enough of what they earn to continue saving, investing, and baking a bigger economic pie for everyone.

Is it "unfair" for sales over the Internet to be tax-free while more traditional sales are taxed?

No. In fact, it would be blatantly unfair to tax out-of-state vendors that do business in a state over the Internet. Taxes are supposed to pay for services that governments provide, such as police protection. As Adam Thierer of the Heritage Foundation has pointed out, "out-of-state vendors of electronic commerce, though subjected to the same tax burdens that Main Street vendors must bear, would receive none of the benefits for the taxes they paid to state and local governments where they did not reside. This amounts to a form of taxation without representation."

Would imposing new taxes on the Internet do serious damage to the ability of this new form of commerce to thrive?

A recent study by economists Austan Goolsbee of the University of Chicago and Jonathan Zittrain of Harvard University estimates that applying sales taxes to electronic commerce would reduce the number of online buyers by 25 percent and total spending on Internet transactions by more than 30 percent. The study suggests that these sales would not be replaced by ordinary retail sales, since the Internet is probably a net trade *creator*, generating business that would not otherwise have occurred.

Does the growth of online shopping pose a threat to traditional bricks-and-mortar retailers?

The most pertinent answer to that question is yet another question: Do catalog sales pose such a threat?

Like Internet sales, catalog sales involve greater convenience for the shopper. They've been a reality in America for decades. Yet catalog sales haven't devastated traditional retailers. Why? Because both catalog sales and e-commerce have—and always will have—a decisive disadvantage in relation to traditional retail sales: the inability of the consumer to examine the goods. And, of course, there's no need to charge for shipping.

The latest figures available bear out this counsel of common sense. E-commerce—while thriving—still only constitutes a tiny fraction—less than one percent—of all retail sales. E-commerce poses no danger of large income losses for traditional retailers. Indeed, the Web offers *new* sales opportunities for *every* business. Because setting up and maintaining a Web page is inexpensive, this is especially true for small firms.

Does tax-free Internet shopping disproportionately hurt the poor?

No, quite the contrary. And applying taxes to the Internet would certainly not *help* the poor at all.

The pro-tax argument goes like this: Since low-income individuals are the least likely to have Internet access, they are the least able to shop online. The poor will end up paying the lion's share of sales taxes as wealthier citizens escape through untaxed Internet purchases.

"The Internet is especially valuable to inner-city residents," notes Aaron Lukas of the Cato Institute. "Lower-income urban shoppers can go online to find goods and services not available in their own neighborhoods, which often aren't served by traditional stores. A recent study conducted by PricewaterhouseCoopers and the Initiative for a Competitive Inner City concludes that "inner-city residents with access to computers and the Internet use the Web as often as, and sometimes more frequently than, does the general U.S. population."

Moreover, computer ownership and Internet access among low income people are growing at rates so rapid that some observers are predicting that every man, woman, and child in America will be connected to the Internet before this decade is out.

The Internet represents a new world of enterprise, easily accessible to buyers and sellers alike. Rather than looking for ways to swipe some chunk of it, politicians should see it as a means to a better life for everyone. □

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IDEAS ON LIBERTY
JUNE 2000

Constitutional Intentions

by Wendy McElroy

A question frequently arises in disputes about how to interpret the U.S. Constitution: What was the intention of those who framed the document? This question contains an invalid assumption. It assumes that those who drafted the Constitution at the 1787 convention and those involved in the subsequent debates were of one mind and intent.

In the introduction to his anthology *The Bill of Rights: Original Meaning and Current Understanding*, law professor Eugene W. Hickok, Jr., wrote, "during the summer of 1787 and during the formative years of the early Republic, there was considerable disagreement over the idea of appending a bill of rights to the new Constitution, as there was controversy over the Constitution itself." Hickok continued, "While it is something of an overstatement to describe the Constitution of 1787 as nothing but the product of political compromise, it is safe to say that the federal character of that Constitution . . . was hammered out through compromise."

Indeed, some Founding Fathers believed that the Constitutional Convention itself was illegal because it violated the Articles of Confederation, the law of the land. Samuel Chase —a signer of the Declaration of Independence—refused to be a delegate. According to the Articles, the only proper function of the convention was to "amend" the existing compact, not to create a new one. Nevertheless, some delegates clearly wished to establish a new compact.

James Madison, along with other Federalists, hoped to establish a strong central government in order to overcome what he termed "the radical infirmity" of the Articles. The infirmity was that Congress had no power to force individual states to comply with its requests. Without a federal government to collect taxes and to issue a monopoly currency, Madison feared that America would not hold together as a nation. In particular, Congress needed to pay for the American Revolution, which meant honoring a huge foreign debt and redeeming paper certificates that had been issued as soldiers' pay during the war. But this centralized power violated the Articles of Confederation.

Thus when the Constitutional Convention opened, such giants as the great orator Patrick Henry and Richard Henry Lee—who had asked the Continental Congress to declare independence from Britain—chose to be absent. Rhode Island boycotted the convention altogether. Those who attended found themselves in constant debate over issues such as centralized government versus states' rights. From the 12 states represented, only 55 of 74 elected delegates actually attended the proceedings and fewer signed the resulting document. The Virginia delegate George Mason said he would rather cut off his hand than affix his signature to it.

Therefore, the first step in answering the question about what intentions underlie the

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Constitution is to realize that many prominent men expressed their intentions by boycotting the Convention or refusing to sign the resulting document.

The Anti-Federalists—those who opposed the Constitution—argued that it transferred too much power from the states to a federal government. They also objected to the absence of a bill of rights. Others argued against specific terms of the Constitution, for example, its authorization of a standing army in peacetime.

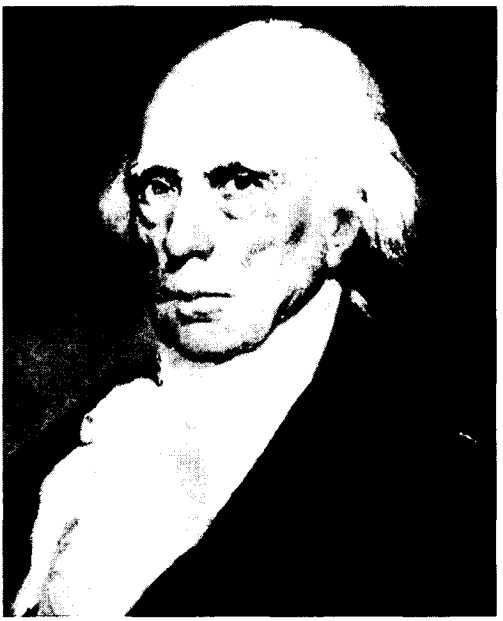
Even some who supported the Constitution did not do so on principle but rather from expediency. As delegate Gunning Bedford declared on July 5, 1787, "The condition of the United States requires that something should be immediately done. It will be better that a defective plan should be adopted, than that none should be recommended." Perhaps this was the basic intention of most delegates to the convention: to hold America together as a nation. But the issues raised by the convention threatened to tear the nation apart.

Analysis of the Constitutional Convention encounters a severe problem. No transcript exists. Moreover, as a procedural rule, the convention barred the public, thus ensuring that no newspaper accounts exist. The debate must be reconstructed from various delegates' notes. Of these, Madison's record is by far the most complete. Yet his account is burdened by two disadvantages. First, as a staunch Federalist, he may well have given short shrift to Anti-Federalists' arguments. Second, his account was not published until decades later, denying other delegates the opportunity to contradict its substance.

Thus it may not be prudent to assess the intentions of delegates solely on the basis of what was allegedly said during the convention.

Some Compromises of the Constitutional Convention

Madison has been called the "father of the Constitution." Although his was not the main hand behind the document's wording, he was the man most responsible for its content. The substance was embodied in what was called the Virginia Plan. On May 29, 1787, Edmund



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James Madison (1751–1836)

Randolph, governor of Virginia, proposed the plan. Gouverneur Morris of Pennsylvania explained the distinction between the existing federation and the one being proposed: "the former being a mere compact resting on the good faith of the parties; the latter having a compleat and compulsive operation." The Virginia Plan envisioned a tripartite government: an executive, a judiciary, and a legislature with two houses. The federal government could veto acts of the state legislatures and use force against rebellious states. Advocates of states' rights balked. Randolph himself admitted that the "strong consolidated union" meant that "the idea of states" would be "nearly annihilated."

Another major sticking point was the proposed proportional representation of the states in both houses of the legislature. Small states protested against what they viewed as domination by the larger ones; Delaware threatened to withdraw from the convention. On June 29 the small states lost the first battle. The convention established population as the basis for representation in the House of Representatives. The convention verged on dissolution. Luther Martin of Maryland declared, "The States have a right to an equality of representation. This is secured to

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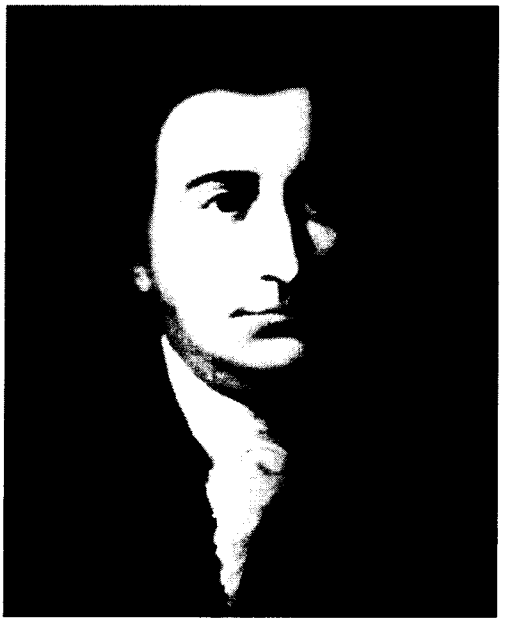
us by our present articles of confederation; we are in possession of this privilege." Compromise emerged. Although the House would be proportionally represented, the states would have equal representation in the Senate.

The conflict over representation spilled into another issue: slavery. The North and less populous South were divided on how slaves were to be counted for taxation and proportional representation. The South wanted to increase its representation by fully counting the slaves. The North objected. They compromised. The proposed Constitution stated, "Representatives and direct Taxes shall be apportioned among the several States . . . according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons . . . three-fifths of all other Persons." The relevant "other persons" were slaves.

The North-South division caused other tensions as well. The North wanted to regulate interstate commerce. The South resisted because its economy depended on the export of raw materials (rice, cotton, and tobacco, for example), which were vulnerable to export taxes. When an import tax on slaves was suggested, the convention erupted. The conflict was resolved by what George Mason called "a bargain." Congress got the power to regulate commerce, but it could not interfere with the slave trade until 1808. Moreover, fugitive slaves who escaped northward would be returned to their owners.

There was also concern over the presidency. If the national executive was to be vested in one man, it was asked, would this become the "fetus of monarchy"? Again, compromise: the national executive would consist of one man whose power was limited. For instance, the president could appoint federal judges, but Senate approval would be required.

On September 17, the delegates met for the last time to formally sign the Constitution. On September 28, Congress ordered the states to call ratifying conventions to vote on the Constitution. Again, the rebellious Rhode Island declined. Ratification by nine of the twelve remaining states was required for the Constitution to become the law of the land.



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Edmund Randolph (1753–1813)

Ratification Debates

Reaction to the Constitution varied from convention to convention. Some states, most notably the smaller ones, ratified with little hesitation. Delaware—the first to ratify on December 7, 1787—did so for utilitarian reasons. It needed the protection of a larger union to survive. Similarly, Georgia was on the brink of warfare both with the Spaniards in Florida and with Indians: it needed union. Connecticut wanted protection against the stiff customs imposed by large neighbors, primarily New York.

In other states vehement debate arose. Here the Anti-Federalist attacks repeated several criticisms: the Constitution lacked a bill of rights; it discriminated against southern states; it weakened state sovereignty. Working-class people feared that the Constitution was an aristocratic document that favored the rich, and they were particularly concerned about the federal government's right to issue paper money. At the Massachusetts convention, one delegate declared, "These lawyers, and men of learning and moneyed men, that . . . make us poor illiterate people swallow down the pill . . . they will swallow up all us little folks like the great Leviathan; yes, just as the whale

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swallowed up Jonah!" From Virginia, George Mason concurred. He believed that the federal judiciary would dominate state courts, allowing the rich to oppress the poor. The absence of a bill of rights made this prospect more likely.

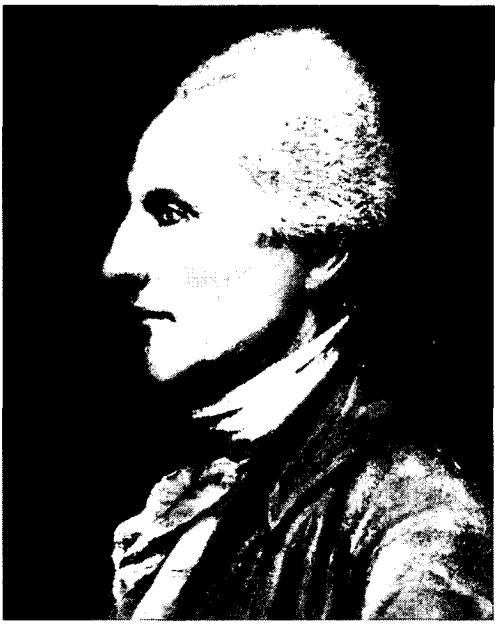
The Anti-Federalist leaders did not always speak with a single voice, however. Indeed, the lack of Anti-Federalist cohesion led Madison to write of one state, "There was not a single character capable of uniting their wills or directing their measures. . . . They had no plan whatever."

One Anti-Federalist issue dominated, however—the absence of a bill of rights. At the Constitutional Convention, a bill of rights had not been a topic of much discussion. Most of the delegates believed that individual rights were secured by state constitutions. If state governments were weakened, however, such personal liberties as freedom of speech and trial by jury needed protection from centralized government.

The Federalists considered a bill of rights superfluous or worse. Listing rights could be dangerous because some rights would be overlooked or left out for brevity's sake. The federal government might violate the unlisted rights with impunity. Alexander Hamilton observed, "why declare that things shall not be done which there is no power to do?" If the federal government had been granted no power to censor speech, why raise the issue?

The Anti-Federalists seemed to hold the upper hand in this argument, yet the Constitution was ratified without a bill of rights. Why did Federalist arguments triumph?

Several factors contributed. One was the great skill with which Federalists such as Madison and Hamilton argued. Consider one example. Anti-Federalists disputed the possibility that a territory as large as the United States could have a representative central government because such a government would necessarily be impersonal, unrepresentative, and dominated by the wealthy. Madison turned this criticism around, claiming that the vastness of America was an argument for a strong republic. He reasoned that a large territory tended to balance out the interest groups that vie for dominance. "The smaller the society," Madison wrote, "the fewer probably will be the distinct parties and interests composing it; the fewer the distinct parties and interests, the more frequently will a majority be found of the same party and the more easily will they concert and execute their plans of oppression."



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Richard Henry Lee (1732–1794)

This argument was presented in one of a series of essays written under the pen name of "Publius," the first of which appeared in late 1787. Published in various New York newspapers, the essays were widely reprinted and exist today under the title *The Federalist Papers*. Authored by Hamilton, Madison, and John Jay, the articles persuasively critiqued the Articles of Confederation and advocated centralized government.

The Federalists also employed a superior strategy, albeit not always a fair one. The Anti-Federalists sought to delay the ratification process so they'd have time to circulate their criticisms of the Constitution to the people. The Federalists had emerged from the closed convention with a distinct advantage. They drew support from towns that tended to have well-circulated newspapers. By contrast, Anti-Federalist support came from rural communities, which were isolated. Moreover, the ratifying conventions were usually held in town

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where the better-organized and better-funded Federalists could speed the process through.

Moreover Anti-Federalists claimed that their mail, including newspapers, was being tampered with by Federalist postmasters in an attempt to silence them. Some Federalists leveled the same accusation.

At one point the Federalists made a brilliant strategic move. After the first few states had ratified, the Anti-Federalists began to call for ratification with attached amendments. Amendments might delay ratification or render it invalid. In response, the Federalists urged the attachment of "suggested" amendments. In Massachusetts, John Hancock called this the "conciliatory proposition." In vain, the Anti-Federalists cried out that the amendments would not be binding on the first Congress. The conciliatory proposition induced Massachusetts to ratify with suggested amendments, but even then the vote was 187 to 168.

Six states had ratified; three more were needed. The most important Anti-Federalist state was Virginia, to which other states now looked for leadership. Virginia's ratifying convention should have been a touchstone if only because many of America's most prominent leaders were Virginians. On the Anti-Federalist side were George Mason, Patrick Henry, and Richard Henry Lee. The Federalists were equally well represented by such prominent men as John Marshall, who later became chief justice of the Supreme Court.

The convention occurred relatively late in the ratification process. On the second day of debate, news of South Carolina's ratification (the eighth state) reached Virginia. Staunch Anti-Federalists played their ace card—southern fear of northern domination. But by then, many of their fellows had decided to ratify. John Randolph explained, "The accession of eight states reduced our deliberations to the single question of Union or no Union." On June 26, Virginia ratified 89 to 79. Like South Carolina and New Hampshire before her, Virginia attached suggested amendments. New York followed suit.

On April 30, 1789, George Washington, having run unopposed, became the first president of the United States. But what of North Carolina and Rhode Island, the two states remaining outside the Union?

North Carolina had voted earlier to wait for a second constitutional convention that would consider suggested amendments. In face of the inevitable it now became the 12th state to ratify.

Rhode Island stood alone. More than any other state, it would have felt the keen impact of federal tariffs. Moreover, it was not eager to relinquish the right to issue currency. Each township had been polled and ratification had been rejected, 28 to 1. Then, in early 1790, the new Senate severed all commercial relations and hinted at a willingness to use force against the rebellious state. Rhode Island ratified by a vote of 34 to 32.

The ratification debates revealed deep divisions among and within the states on issues ranging from freedom of religion to a standing army. It dramatized the fact that no single intention lay beneath the surface of any particular passage of the Constitution. The Constitution—including the Bill of Rights—was shaped by its critics as well as by its advocates, and the intentions behind it varied widely. Rather than search for any one interpretation of the Constitution, therefore, it is productive to explore the compromises reflected in the document. To understand the compromises, however, it is necessary to weigh anew both sides of the argument.

More fundamentally, one must understand the political circumstances that gave rise to the specific wording of the Constitution. After all, the intentions of the framers were largely a reaction to events surrounding the American Revolution. For example, the Constitution's prohibition against a standing army makes no sense until the abuses of the British army against the colonists are taken into account. Thus better questions to ask regarding any passage of the Constitution may be, Which political situation was it meant to prevent or perpetuate? And why? □

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IDEAS ON LIBERTY
JUNE 2000

The War Against Drug-Speech

by Paul Armentano

The "thought police" are back. And with a vengeance.

Pending congressional legislation casts politicians and law enforcement as modern-day book burners. Legislators have their pick of three separate bills that would impose a ten-year felony sentence on anyone who communicates, by any means, "information pertaining to the . . . manufacture of a controlled substance," if that information aids in the furtherance of a federal crime.

The most high-profile of these is S. 486, the Anti-Methamphetamine Proliferation Act, which the Senate unanimously approved before its winter recess. It now awaits action by the House, whose members are champing at the bit to rubber-stamp the proposal this spring despite its assault on the First Amendment. "We are hoping to have hearings . . . and pass the bill this year, sooner rather than later," says Representative Chris Cannon of Utah, who shrugs off its implications for free speech. "We have worked a lot with attorneys at the Department of Justice; we have been pretty thorough there. We don't even expect a court challenge."

The amendment's authors, Senators Dianne Feinstein of California and Orrin Hatch of Utah, argue their proposal is necessary to prohibit "those who embrace the drug counterculture . . . [from] using the Internet to promote, advertise, and sell illegal drugs and drug paraphernalia." However, some drug-law reformers warn that the legislation's broad language could apply to virtually any speech deemed contrary to the War on Drugs.

"Given the vague and inclusive interpretation of federal conspiracy laws, almost any information about criminalized drugs and any dissent against existing drug laws could be construed by federal enforcers as furthering drug crimes," speculates Mark Greer, who runs Drug Sense, the World Wide Web's largest drug-related news-clipping service. "Any anti-drug war Web site [could] be shut down directly or indirectly because Internet service providers, fearing prosecution, would refuse to host such sites."

Web sites, magazines, and books containing information on procuring medical cannabis, sterilizing needles, identifying wild psychedelic mushrooms, vaporizing marijuana, and a host of other drug-related activities would be censored under the Feinstein-Hatch legislation, and their publishers would be subject to prosecution. Even communicating information pertaining to the personal cultivation of medical marijuana in states where it is now legal to do so (Alaska, California, Maine, Oregon, and Washington) could become punishable by a ten-year prison term. In addition, third parties such as journalists and newspapers that link or refer to drug-related Internet sites could also face felony prosecution and jail time. To demonstrate this point, a recent editorial in the Boston *Phoenix* newspaper included links to a trio of Web sites contain-

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ing information on the preparation of illicit substances. "Warning," the editors wrote, "the editorial you are about to read would be illegal if Senators Feinstein and Hatch had their way."

"This bill is the single most un-American thing I have ever seen," says Mike Hoy, president of the publishing house Loompanics Unlimited, which stocks several drug-related titles such as *Opium for the Masses: A Practical Guide to Growing Poppies and Making Opium* and *Gourmet Cannabis Cookery.* "If it passes, we would probably pull all of our drug books, since I am unwilling to spend several hundred thousand dollars that I don't have to prove that my 'intent' satisfies Big Brother."

Just what kind of material indicates intent to further drug crimes is also a concern for Richard Cowan, publisher of marijuananews.com, which posts drug-related newspaper articles and press releases. "The intent will inevitably be determined by context," a judgment that will likely be left up to the Drug Enforcement Administration, he suggests.

Proving Intent

Marv Johnson of the American Civil Liberties Union believes that prosecutors would only be able to prove intent if they could show that a publisher knew beforehand its literature would serve to further a criminal act. He admits, however, that the legal parameters surrounding this issue are not yet well defined.

"Ultimately, this law will be selectively enforced," assumes Dana Larsen, editor of the Vancouver-based magazine *Cannabis Culture.* "The Web is too large [to thoroughly censor]." Nevertheless, the feds could use the law to target high-profile dissenters in the War on Drugs and strike fear into the hearts of anyone else contemplating the dissemination of non-approved drug-speech.

Similar censorship laws exist in other nations. Canada's parliament banned all literature pertaining to illicit drug use in 1988, making the importation and sale of such materials punishable by up to six months in jail and a $100,000 fine. (An Ontario provincial court eventually struck down this ban in 1995, and now the law is rarely enforced.) Larsen reports that a handful of pro-marijuana authors and publishers have been fined and jailed in England and France. An Argentine judge is demanding that the United States extradite former *High Times Magazine* editor Peter Gorman for allegedly advocating the use of marijuana via the Internet. Promoting criminal activity in itself is a crime in Argentina, and Gorman could receive a prison sentence if extradited and found guilty. Could similar situations here be far off?

Saul Rubin, author of *Offbeat Marijuana,* says the bill would "chill any legitimate exchange of information about [illicit drugs], be it on a Web site, in a book, a magazine, or even a conversation. The Feinstein-Hatch bill would [even] make writing and publishing [my] book a crime."

That is likely the true agenda of lawmakers backing S. 486 and its companion bills. By suppressing information that contradicts the drug war agenda, Congress is hoping to extinguish the already one-sided drug policy debate and muzzle a public that is growing increasingly intolerant of Washington's failing social policies. □

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IDEAS ON LIBERTY
JUNE 2000

NATO's Disastrous Victory in Kosovo

A year ago the administration was beating the war drums in the Balkans. Secretary of State Madeleine Albright, in particular, had proved more interested in bombing Serbia than encouraging a settlement. And bomb the United States did, for 78 days. The result is a policy of failure veering toward disaster.

NATO's attack was to bring peace to Yugoslavia. But only bad news has followed.

Immediately after Washington's "triumph" came the mass flight of ethnic Serbs, many of whom were transported by the United Nations. Explained Dennis Macnamara, spokesman for the U.N. High Commissioner for Refugees, "some people we haven't evacuated and who wanted it have lost their lives." Croats, Gypsies, Jews, and even non-Albanian Muslims also fled.

Serbs who did not leave have been bombed, shot, kidnapped, beaten, and robbed. Scores of Orthodox churches, monasteries, and other religious sites have been despoiled. General Klaus Reinhardt, head of the NATO "peacekeeping" force (KFOR), admits that Kosovo remains too dangerous for the 150,000 to 230,000 refugees to return.

Reports the Organization for Security and Cooperation in Europe: "House burnings, blockades restricting freedom of movement, discriminatory treatment in schools, hospitals, humanitarian aid distribution and other public services based on ethnic background, and forced evictions from housing recall some of the worst practices of Kosovo's recent past." U.N. human rights representative Jiri Dienstbier similarly complains that the spring ethnic cleansing by Serbs was "replaced by the fall ethnic cleansing of Serbs, Romas, Bosniaks and other non-Albanians accompanied by the same atrocities."

The situation deteriorates daily. Crimes against Serbs are down only because most have fled. Fighting between ethnic Albanians and Serbs in the mixed city of Kosovska Mitrovica is worsening.

Although leading Albanians formally disavow the violence, most do nothing to stop it. Those who speak out on behalf of tolerance are themselves threatened; local officials allied with moderate Ibrahim Rugova have been murdered.

The Kosovo Liberation Army has disarmed in name only, formally transmuting into the Kosovo Protection Corps. Armed thugs rule the night, and organized crime is spreading. The police and courts don't function and no one, Albanian or Serb, is safe. Reports Steven Erlanger of the *New York Times*: "robberies, apartment thefts, extortion and even murders take place with near impunity."

Human rights abuses by the Serbs were bad enough. Now the same practices are being carried out under the West's authority. National Security Council adviser Sandy Berger's response: to threaten ethnic Albanians with the loss of the "support of the international community."

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But more than a few Kosovars don't care what the "international community" thinks. A U.N. bus was hit by an anti-tank rocket. Albanian snipers in Mitrovica have injured French peacekeepers, who in turn killed one of their attackers and arrested others. Halit Barani, head of the Human Rights Council, responded by calling the French "the same as the Serb soldiers."

American and German troops were subsequently deployed to Mitrovica. When U.S. forces conducted an apartment-by-apartment search for weapons, breaking down doors along the way, they were met with a hail of stones, bottles, and ice by Serbian crowds. German soldiers were attacked as well.

Thus the Kosovo civil war rages on, with only a temporary lull in the worst violence. The United States must decide whether it is prepared to maintain its occupation for years, if not forever, or will do what it should have done last year—leave the Balkans to the Europeans.

NATO's decision to intervene looks ever worse as hindsight lengthens. In early 1998 ethnic Serbs and Albanians were locked in a bitter guerrilla war, one like the conflicts in Colombia, the Democratic Republic of the Congo, East Timor, Kashmir, Liberia, Sri Lanka, Sudan, and Turkey. Despite protestations to the contrary, the fighting was contained and threatened no major military power. Nor did Kosovo offer special humanitarian considerations: More people had died in a score of conflicts around the world. The only difference was that none of the other victims were white Europeans.

Nevertheless, NATO launched what by any criteria was a war of aggression. Washington piled on the propaganda, replicating the infamous "Belgian atrocities" claimed by the allies in World War I. But the claims of genocide were subsequently proved false.

Instead of saving lives, Washington sacrificed them. As many Serb civilians died under NATO bombs as ethnic Albanians had died during the preceding year. And it was the allied bombing that sparked the mass expulsion of ethnic Albanians.

Washington did eliminate Serb authority in the territory. But having allied itself with the KLA in war, the West now upholds formal Serbian rule, refusing to allow either independence or union with Albania. Only the Clinton administration could concoct such an incoherent policy.

America faces a situation similar to that at the end of the Spanish-American War. After defeating Madrid, the United States grabbed the Philippines, even though the archipelagic Spanish colony was irrelevant to the original dispute over Cuba.

During the conflict Washington allied itself with local independence fighters. Once the United States decided to become an imperial power, it found itself at war with those same forces, which had no desire to swap one colonial master for another. It took years and thousands of lives for Washington to suppress the guerrillas.

Today, NATO faces a choice between policy failure and policy disaster, as my Cato Institute colleague Gary Dempsey puts it.

If the alliance acknowledges reality and gives up on its original objective of preserving a multi-ethnic Kosovo under Serb suzerainty, it will suffer an embarrassing failure. The war will have been in vain; economic costs to the region will continue to mount; and the tremors loosed by the war will further destabilize the region, particularly Albania, Macedonia, and Montenegro.

However, the consequences are likely to be far worse if NATO attempts to achieve its objectives and stave off failure. Maintaining present policy is likely to turn the ethnic Albanian majority on the allied forces, creating disaster.

The best case would be overt hostility, growing demonstrations, and sporadic sniping and bomb attacks. The United States and its Western allies would then have to escalate or withdraw; neither would be easy to explain to their citizens.

Far worse is the possibility of a serious guerrilla conflict against the NATO occupiers. Try to justify that to American and European audiences: their sons and husbands dying to defend Serb sovereignty over Kosovo.

The United States should get out. Now. □

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IDEAS ON LIBERTY
JUNE 2000

Trade and the Rise of Freedom

by Thomas J. DiLorenzo

It is no exaggeration to say that trade is the keystone of modern civilization. As Murray Rothbard wrote, "The market economy is one vast latticework throughout the world, in which each individual, each region, each country, produces what he or it is best at, most relatively efficient in, and exchanges that product for the goods and services of others. Without the division of labor and the trade based upon that division, the entire world would starve. Coerced restraints on trade—such as protectionism—cripple, hobble, and destroy trade, the source of life and prosperity."[1]

Human beings cannot truly be free unless there is a high degree of *economic* freedom—the freedom to collaborate and coordinate plans with other people from literally all around the world. That is the point of Leonard Read's most famous article, "I, Pencil," which describes how producing an item as mundane as an ordinary pencil requires the cooperation and collaboration of thousands of people from all around the world, all of whom possess very specific knowledge that allows them to assist in the manufacture and marketing of pencils. The same is true, of course, for virtually everything else that is produced.

Without economic freedom—the freedom to earn a living for oneself and one's family—people are destined to become mere wards of the state. Thus, every attempt by the state to interfere with trade is an attempt to deny us our freedom, to impoverish us, and to turn us into modern-day serfs.

Ludwig von Mises believed that exchange is "the fundamental social relation," which "weaves the bond which unites men into society."[2] Man "serves in order to be served" in any trade relationship in the free market.[3] Mises also distinguished between two types of social cooperation: cooperation by virtue of private contract and coordination, and cooperation by virtue of command and subordination or "hegemony."[4] The former type of coordination is symmetrical and mutually advantageous, while the latter is asymmetrical—there is a commander and a commandee, and the commandees are mere pawns in the actions of the commanders. When people become the mere pawns of their rulers they cannot be said to be free. This, of course, is the kind of "cooperation" that exists at the hands of the state.

Western civilization is the result of "achievements of men who have cooperated according to the pattern of contractual coordination," Mises wrote.[5] The contractual state is guided by such concepts as natural rights to life, liberty, and property, and government under the rule of law. In contrast, the "hegemonic society" is one that does not respect natural rights or the rule of law. All that matters are the rules, directives, and regulations issued by dictators, whether they are called kings or congressmen.

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These directives may change daily, and the wards of the state must obey. As Mises wrote, "The wards have one freedom only: to obey without asking questions."[6]

Trade involves the exchange of property titles. Restrictions on free trade are therefore an attack on private property itself and not "merely" a matter of "trade policy." This is why such great classical liberals as Frederic Bastiat spent many years of their lives defending free trade. Bastiat, as much as anyone, understood that once one acquiesced in protectionism, no one's property was safe from myriad other governmental acts of theft. To Bastiat, protectionism and communism were essentially the same philosophy.

It has long been recognized by classical liberals that free trade is *the* most important means of diminishing the likelihood of war. Nothing is more destructive of human freedom than war. It always leads to a permanent enlargement of the state—and a reduction in human freedom—regardless of who wins. On the eve of the French Revolution many philosophers believed that democracy would put an end to war, for wars were thought to be fought merely to aggrandize and enrich the rulers of Europe. The French quickly proved this theory wrong, however, for under the leadership of Napoleon they, in Mises's words, "adopted the most ruthless methods of boundless expansion and annexation."[7]

Thus it is not democracy that is a safeguard against war but, as the British (classical) Liberals were to recognize, free trade. To Richard Cobden and John Bright, the leaders of the British Manchester School, free trade—both domestically and internationally—was a necessary prerequisite for the preservation of peace; for in a world of trade and social cooperation, there are no incentives for war and conquest. It is government interference with free trade that is the source of international conflict. Indeed, naval blockades that restrict trade are the ultimate act of war. Throughout history restrictions on trade have proven to be impoverishing and have instigated acts of war motivated by territorial acquisition and plunder.

It is no mere coincidence that the 1999 meeting of the World Trade Organization—a cabal of bureaucrats, politicians, and lobbyists that favors government-controlled trade—was marked by a week of riots, protests, and violence. Whenever trade is politicized the result is inevitably conflict that quite often leads, eventually, to military aggression.

Mises summarized the relationship between free trade and peace most eloquently when he noted:

> What distinguishes man from animals is the insight into the advantages that can be derived from cooperation under the division of labor. Man curbs his innate instinct of aggression in order to cooperate with other human beings. The more he wants to improve his material well-being, the more he must expand the system of the division of labor. Concomitantly he must more and more restrict the sphere in which he resorts to military action. . . . Such is the laissez-faire philosophy of Manchester.[8]

As Bastiat often said, if goods can't cross borders, armies will. This is a quintessentially American philosophy; it was the position of George Washington, Thomas Jefferson, and Thomas Paine, among others. "A foreign policy based on commerce," wrote Paine in *Common Sense*, would secure for America "the peace and friendship" of the Continent and allow her to "shake hands with the world—and trade in any market."[9] Paine—the philosopher of the American Revolution—believed that free trade would "temper the human mind," help people to "know and understand each other," and have a "civilizing effect" on everyone involved in it.[10] Trade was seen as "a pacific system, operating to unite mankind by rendering nations, as well as individuals, useful to each other. . . . War can never be in the interest of a trading nation."[11]

George Washington agreed. "Harmony, liberal intercourse with all nations, are recommended by policy, humanity, and interest," he stated in his September 17, 1796, Farewell Address.[12] Our commercial policy "should hold an equal and impartial hand; neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle

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means the streams of commerce, but forcing nothing."[13]

The Eternal Struggle Between Freedom and Mercantilism

The period of world history from the middle of the fifteenth to the middle of the eighteenth centuries was an era of growth in world trade, technology, and institutions suited to trade. Technological innovations in shipping, such as the three-masted sail, brought the merchants of Europe to the far reaches of America and Asia. This vast expansion of trade greatly facilitated the worldwide division of labor, greater specialization, and the benefits of comparative advantage.[14]

But whenever human freedom advances, as it did with the growth of trade, state power is threatened. So states did all they could then, as now, to restrict trade. It is the system of trade restrictions and other governmental interference with the free market, known as mercantilism, that Adam Smith railed against in *The Wealth of Nations*. As Rothbard has written:

> Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held that exports should be encouraged by the government and imports discouraged.[15]

Classical liberals waged an ideological war against mercantilism during the eighteenth and nineteenth centuries, and scored some major victories for freedom. The French physiocrats, led by the physician and economist François Quesnay, were influential from the 1750s to the 1770s. They were among the first laissez-faire thinkers who denigrated mercantilist propaganda and called for complete freedom of domestic and international trade. Their position was based on sound economics as well as Lockean notions of natural rights. Quesnay wrote, "Every man has a natural right to the free exercize of his faculties provided he does not employ them to the injury of himself or others."[16]

When Anne Robert Jacques Turgot, a precursor of the Austrian school, became finance minister of France in 1774, his first official act was to free the import and export of grain. At around the same time, Adam Smith was defending trade on moral as well as economic grounds by identifying it is as part of the system of "natural justice." One of the ways he did this was to defend smuggling as a means of evading mercantilist restrictions on trade. The smuggler, explained Smith, was engaged in "productive labor" that served his fellow man (consumers), whereas if he were caught by the government and prosecuted, his capital would be "absorbed either in the revenue of the state or in that of the revenue-officer," which is an "unproductive" use "to the diminution of the general capital of the society."[17]

The Manchester School

Despite powerful arguments in favor of free trade offered by Quesnay, Smith, David Ricardo, and others, England (and other countries of Europe) suffered from protectionist trade policies in the first half of the nineteenth century. The British public was plundered by the mercantilist Corn Laws, which placed strict quotas on the importation of grain. By raising food prices, the laws benefited landowning political supporters of the government at the expense of consumers, especially the poor. But this changed thanks to the heroic and brilliant efforts of what came to be known as the Manchester School, led by two British businessmen (and later, statesmen), John Bright and Richard Cobden. Bright and Cobden formed the Anti-Corn Law League in 1839 and turned it into a well-oiled political machine with mass support, distributing literally millions of leaflets, holding conferences and gatherings all around the country, delivering hundreds of speeches, and publishing their own newspaper, *The League*.[18]

The Irish potato famine of 1845 created great pressures for repeal of the Corn Laws, which was finally achieved on June 25, 1846. The elimination of all other import duties fol-

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lowed, and a 70-year period of British free trade began. Cobden was also influential in pushing through the Anglo-French treaty of 1860, which lowered French tariffs and helped put that country on the road to freer trade.

The Great Bastiat

From his home in Mugron, France, Frederic Bastiat single-handedly created a free-trade movement in his own country that eventually spread throughout Europe. Bastiat was a gentleman farmer who had inherited the family estate. He was a voracious reader, and spent many years educating himself in classical liberalism and in almost any other field that he could attain information about. After some 20 years of intense intellectual preparation, articles and books began to pour out of Bastiat (in the 1840s). His book *Economic Sophisms* is to this day arguably the best defense of free trade ever published. *Economic Harmonies* quickly followed, while Bastiat published in magazines and newspapers all over France. His work was so popular and influential that it was immediately translated into English, Spanish, Italian, and German.

Because of Bastiat's enormous influence, free-trade associations, modeled after one he had created in France and similar to the one created by his friend Richard Cobden in England, began to sprout in Belgium, Italy, Sweden, Prussia, and Germany.

To Bastiat, collectivism in all its forms was immoral as well as economically destructive. Collectivism constituted "legal plunder," and to argue against the (natural) right to private property would be similar to arguing that theft and slavery were moral. The protection of private property is the only legitimate function of government, Bastiat wrote, which is why trade restrictions—and all other mercantilist schemes—should be condemned. Free trade "is a question of right, of justice, of public order, of property. Because privilege, under whatever form it is manifested, implies the denial or the scorn of property rights." And "the right to property, once weakened in one form, would soon be attacked in a thousand different forms."[19]

The Struggle Against Mercantilism in America

There is no clearer example of how trade restrictions are the enemy of freedom than the American Revolution. In the seventeenth century all European states practiced mercantilism. England imposed a series of Trade and Navigation Acts on its colonies in America and elsewhere; they embodied three principles: (1) all trade between England and her colonies must be conducted by English (or English-built) vessels owned and manned by English subjects; (2) all European imports into the colonies must "first be laid on the shores of England" before being sent to the colonies so that extra tariffs could be placed on them; and (3) certain products from the colonies must be exported to England and England only.

In addition, the colonists were prohibited from trading with Asia because of the East India Company's state-chartered monopoly. There were duties placed on all colonial imports into England.

After the Seven Years War (known in America as the French and Indian War), England's massive landholdings (Canada, India, North America to the Mississippi, most of the West Indies) became expensive to administer and police. Consequently, the Trade and Navigation Acts were made even more oppressive, which imposed severe hardships on the American colonists and helped lead to revolution.[20]

After the American Revolution trade restrictions nearly caused the New England states—which suffered disproportionately from them—to secede from the Union. In 1807 Thomas Jefferson was president and England was once again at war with France. England declared that it would "secure her seamen wherever found," which included U.S. ships. After a British warship captured the *U.S.S. Chesapeake* off Hampton Roads, Virginia, Jefferson imposed a trade embargo that made all international commerce illegal. After Jefferson left office his successor, James Madison, imposed an Enforcement Act, which allowed war-on-drugs–style seizure of goods suspected to be destined for export.

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This radicalized the New England secessionists, who had been plotting to secede ever since Jefferson was elected, and who issued a public declaration reminding the nation that "the U.S. Constitution was a Treaty of Alliance and Confederation" and that the central government was no more than an association of the states. Consequently, "whenever its [the Constitution's] provisions were violated, or its original principles departed from by a majority of the states or their people, it is no longer an effective instrument, but that any state is at liberty by the spirit of that contract to withdraw itself from the union."[21]

The Massachusetts legislature formally condemned the embargo, demanded its repeal by Congress, and declared that it was "not legally binding." In other words, the Massachusetts legislature "nullified" the law, just as South Carolina would nullify the 1828 Tariff of Abominations some 20 years later. Madison was forced to end the embargo in March 1809.

There has always been a collection of men in America who wanted to bring the British mercantilist system here precisely because it was so destructive of freedom. They figured to be the commanders of the system and its chief beneficiaries. As John Taylor of Caroline observed, these men "included Hamilton and the Federalists and later, the politicians of the Era of Good Feelings in the 1820s who eventually became Whigs."[22] These men "sought to bring the British system to America, along with its national debt, political corruption, and Court party."[23]

Taylor, a noted Anti-Federalist, was a lifelong critic of mercantilism, who laid out his criticisms in his 1822 book, *Tyranny Unmasked.* Like Bastiat, Taylor saw protectionism as an assault on private property that was diametrically opposed to the freedom the American revolutionaries had fought and died for. Taylor sought to "unmask" the tyranny of the fables and lies that the mercantilists had devised to promote their system of plunder. If one looked at England's mercantilist policies, Taylor wrote, "No equal mode of enriching the party of government, and impoverishing the party of people, has ever been discovered."[24] He wrote of the "indissoluble conexions" between both "the freedom of industry and national prosperity" and also "between national distress and protecting duties, bounties, exclusive privileges, and heavy taxation."[25] The former produces national happiness, whereas the latter produces national misery, according to Taylor. In pointing out the folly of economic autarky (self-sufficiency) he asked:

> Will Alabama want nothing but cotton, should that State select this species of labour for its staple? Can she eat, drink, and ride her cotton? Can she manufacture it into tools, cheese, fish, rum, wine, sugar, and tea? . . . . Is not Georgia a market for manufacturers, and Rhode-Island a market for cotton, in consequence of the division of labor?[26]

Many of Taylor's arguments were adopted and expanded on by the South Carolinian statesman John C. Calhoun during the struggle over the 1828 Tariff of Abominations, which a South Carolina political convention voted to nullify. The confrontation between that state, which was very heavily dependent on imports, as was most of the South, and the federal government over the Tariff of Abominations almost led to the state's secession some 30 years before the War Between the States. The federal government backed down and reduced the tariff rate in 1833.

The northern manufacturers who wanted to impose British-style mercantilism on the country did not give up, however; they formed the American Whig party, which advocated three mercantilist schemes: protectionism, corporate welfare, and a central bank to pay for it all. From 1832 until 1852 the Whigs, led by Henry Clay and later by Abraham Lincoln, fought mightily in the political arena to bring seventeenth-century mercantilism to America.[27]

The party died in 1852, but the Whigs simply began calling themselves Republicans. The tariff was the centerpiece of the Republican party platform of 1860, as it had been when the same collection of northern eco-

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nomic interests called itself "Whigs" during the previous 30 years.

By 1857 the level of tariffs had been reduced to the lowest level since 1815, according to Frank Taussig in his classic *Tariff History of the United States*.[28] But when the Republicans controlled the White House and the southern Democrats left the Congress, the Republicans, as former Whigs, did what they had been itching to do for decades: go on a protectionist frenzy. In his first inaugural address Lincoln stated that he had no intention to disturb slavery in the southern states and even if he did, there would be no constitutional basis for doing so. But he promised a military invasion if tariff revenues were not collected. Unlike Andrew Jackson, he would not back down from the South Carolinian tariff nullifiers.

By 1862 the average tariff rate had crept up to 47.06 percent, the highest level ever to that point, even higher than the 1828 Tariff of Abominations. These high rates lasted for decades after the war.

Many of the newspapers that supported the Republican party openly called for a military invasion of southern ports to keep the South from adopting free trade, which was written into the Confederate Constitution of 1861. On March 12, 1861, for example, the *New York Post* advocated that the U.S. Navy "abolish all ports of entry" in the South.[29] On April 2, 1861, the *Newark Daily Advertiser* in New Jersey warned ominously that southerners had "apparently taken to their bosoms the liberal and popular doctrine of free trade" and that free trade "must operate to the serious disadvantage of the North" as "commerce will be largely diverted to Southern cities." The "chief instigator" of "the present troubles," South Carolina, has all along been "preparing the way for the adoption of free trade" and must be stopped by "the closing of the ports" by military force.[30]

As mentioned above, by 1860 England itself had moved to complete free trade; France sharply reduced her tariff rates in that very year; and the free-trade movement started by Bastiat was spreading throughout Europe. Only the northern United States was clinging steadfastly to seventeenth-century mercantilism.

After the war the northern manufacturing interests who financed and controlled the Republican party "ushered in a long period of high tariffs. With the tariff of 1897, protection reached an average level of 57 percent."[31] This political plunder continued for about 50 years after the war, at which time international competition forced tariff rates down moderately. By 1913 the average tariff rate in the United States had declined to 29 percent.

Protectionists Triumph

But the same clique of northern manufacturers was begging for "protection" and persisted until President Herbert Hoover signed the Smoot-Hawley Tariff of 1929, which increased the average tariff rate on over 800 items back up to 59.1 percent.[32] Smoot-Hawley spawned an international trade war that resulted in a 50 percent reduction in total exports from the United States between 1929 and 1932.[33] Poverty and misery were the inevitable result. Even worse, the government responded to these problems of its own creation with a massive increase in government intervention, which only produced even more poverty and misery and deprived Americans of more and more of their freedoms.

Since the seventeenth century all the great classical liberals have defended free trade and opposed trade restrictions. Restrictions on trade are an attack on the institution of private property, interfere with the international division of labor that is the source of our prosperity, and are nothing less than an act of theft. As Murray Rothbard remarked:

> [T]he impetus for protectionism comes not from preposterous theories, but from the quest for coerced special privilege and restraint of trade at the expense of efficient competitors and consumers. In the host of special interests using the political process to repress and loot the rest of us, the protectionists are among the most venerable. It is high time that we get them, once and for all, off our backs, and treat them with the righteous indignation they so richly deserve.[34] □

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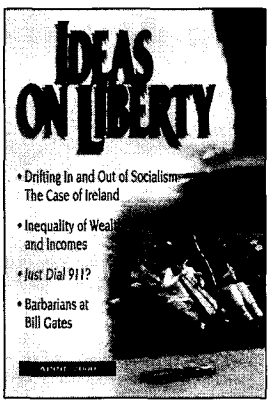
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IDEAS ON LIBERTY
JUNE 2000

War

by Frederic Bastiat

Among all the circumstances that have some part in giving to a people its distinctive features, its moral tone, its character, its habits, laws, and peculiar spirit, the one that overshadows all others, because it includes virtually all of them, is its manner of providing its means of existence. We owe this observation to Charles Comte,[1] and it is surprising that it has not had greater influence on the social and political sciences.

In fact, this circumstance affects the human race in two equally powerful ways: by being a constant concern, and by being the concern of everyone. Earning a living, supporting oneself, improving one's condition, raising a family—these are not matters of taste, opinion, or choice, involving one time or one locality only; these are the daily, lifelong, inescapable preoccupations of all men at all times and in all places.

Everywhere the major part of men's physical, intellectual, and moral forces is devoted directly or indirectly to creating and replenishing their means of subsistence. The hunter, the fisherman, the sheep raiser, the farmer, the manufacturer, the businessman, the laborer, the artisan, the capitalist, all think, first of all, in terms of keeping soul and body together (however prosaic this admission may be) and, secondly, of living better and better, if possible. That this is so is proved by the fact that it is for no other reason that they are hunters, manufacturers, farmers, etc. Similarly, the civil servant, the soldier, the magistrate enter upon these careers only in order to ensure the satisfaction of their wants. Nor should we hold it against the man who follows a vocation calling for disinterestedness and self-sacrifice if he, too, invokes the proverb: To the priest the altar is a livelihood; for before he became a priest, he was a man. And if at this very moment such an individual is writing a book against the vulgarity of this observation of mine, or rather against the vulgarity of the human condition, the sale of his book will argue against his own thesis.

God forbid that I should deny the existence of self-sacrifice. But it will be admitted that examples of it are exceptional, and this is what makes them meritorious and worthy of our admiration. For, if we consider mankind as a whole, unless we have made a pact with the demon of sentimentality, we must admit that disinterested acts cannot be compared, numerically speaking, with those that are dictated by the hard necessities of our nature. And it is because these acts, which make up the sum total of our labors, occupy so large a part of the lives of each one of us, that they cannot fail to influence greatly the phenomena of our national life.

Frederic Bastiat (1801–1850) was a French economist, free-trade activist, and member of the French legislature after the Revolution of 1848. This is a chapter from his treatise, Economic Harmonies, *translated by W. Hayden Boyers, which along with his other works is available from FEE.*

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Saint-Marc Girardin and Rousseau

M. Saint-Marc Girardin[2] says somewhere that he came to realize that political forms are relatively unimportant compared with the great general laws that are imposed upon people by their wants and by the labor they do. "Do you desire to know what any nation really is?" he asked. "Ask not how it is governed, but what it does for a living."

As a general judgment this is correct. But the author soon gives it a false sense by turning it into a system. The importance of political forms has been exaggerated; so what does he do? He reduces it to nothing, he denies it completely, or he recognizes its existence only to laugh at it. Political forms, he says, interest us only on election day or during the hour we set aside for reading the newspaper. Monarchy or republic, aristocracy or democracy, what difference does it make? And so we must look at the conclusion he reaches. Maintaining that *young* nations resemble one another, regardless of their political organization, he likens the United States to ancient Egypt, because both have carried out enterprises of gigantic proportions. But I protest. When the Americans clear vast tracts of land, dig canals, build railroads, they do it all for themselves, because they are a democracy and are their own masters! The Egyptians erected temples, pyramids, obelisks, and palaces for their kings and their priests, because they were slaves! And this is only a slight difference, a mere matter of form, hardly worth noticing, or, if we do notice it, deserving only to be laughed at! Oh, the deadly contagion of the veneration for things classic! How it corrupts its superstitious devotees!

Soon after, M. Saint-Marc Girardin, still pursuing the same point, that the principal occupations of a people determine its national character, goes on to say: In the past, nations concerned themselves with war and religion; today, their chief preoccupation is with commerce and industry. For this reason the generations that preceded us had a warlike and religious character.

Rousseau had earlier declared that concern with one's mere existence was the dominant interest of only a few nations, and those of a most unimaginative kind; that other nations, more worthy of the name, had devoted themselves to nobler pursuits.

Were not M. Saint-Marc Girardin and Rousseau perhaps the victims of one of the illusions of history? May they not have mistaken the amusements and the diversions, that is, the devices and instruments of despotism, in which some of the citizens indulged, for the occupations of the entire nation? And may not this illusion be due to the fact that historians are always talking about the class that does not work and never about the classes that do, so that eventually we come to identify the entire nation with the leisure class?

Cultivating Force and Fraud

I cannot help thinking that among the Greeks, as among the Romans and in the Middle Ages, men were just as they are today, that is, subject to wants so strong, so recurrent, that it was necessary to provide for them on pain of death. Therefore, I cannot help concluding, that then, as now, these wants were the chief and most absorbing preoccupation of the great majority of the human race.

What does appear certain is that a very small number of men managed to live without working, supported by the labor of the oppressed masses. This small leisured group made their slaves construct sumptuous palaces, vast castles, or somber fortresses. They loved to surround themselves with all the sensuous pleasures of life and with all the monuments of art. They delighted in discoursing on philosophy and cosmogony; and, above all, they carefully cultivated the two sciences to which they owed their supremacy and their enjoyments: the science of force and the science of fraud.

For beneath this aristocracy were the countless multitudes occupied in creating, for themselves, the means of sustaining life and, for their oppressors, the means of surfeiting them with pleasures. Since the historians never make the slightest mention of these multitudes, we forget their existence; they do not count for us at all. We have eyes only for the aristocracy. It is this class that we call

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ancient society or feudal society. We imagine that such societies were self-sustaining, that they never had recourse to anything so mundane as commerce, industry, or labor; we admire their unselfishness, their generosity, their love of the arts, their spiritual qualities, their disdain for servile occupations, their lofty thoughts and sentiments; we declare, with a certain quaver in the voice, that at one time the nations cared only for glory, at another only for the arts, at another only for philosophy, at another only for religion, at another only for virtue; we very sincerely weep over our own sorry state; we speak of our age with sarcasm because, unable to rise to the sublime heights attained by such paragons, we are reduced to according to labor and to all the prosaic virtues associated with it so important a place in our modern life.

Let us console ourselves with the thought that it played a no less important role in ancient life. The only difference was that the labor that a few men had managed to escape fell crushingly on the oppressed masses, to the great detriment of justice, liberty, property, wealth, equality, and progress; and this is the first of the disturbing factors to which I must call the reader's attention.

Securing the Means of Existence

The ways by which men provide their means of existence cannot fail to exert a great influence on their physical, moral, intellectual, economic, and political condition.

If we could observe a number of primitive tribes, one of which had devoted itself exclusively to hunting, another to fishing, a third to agriculture, and a fourth to navigation, who could doubt that these tribes would present considerable differences in their ideas, opinions, habits, customs, manners, laws, and religion? No doubt we should find human nature basically the same everywhere. Therefore, their laws, habits, and religions would have many points in common, which, I believe, could well be called the general laws of human society.

However, in our great modern societies all or nearly all the processes of production—fishing, agriculture, industry, commerce, the sciences, and the arts—are at work simultaneously, although in varying proportions in different countries. For this reason the differences among nations are not and cannot be as great as they would be if each nation devoted itself exclusively to one occupation.

But if the nature of a people's occupations greatly influences its morality, it is also true that its desires, its tastes, and its morality exert in their turn a great influence on the nature of its occupations, or at least on their relative importance. I shall not add anything more to this observation, which has already been presented elsewhere in this work, and thus I reach the main subject of this chapter.

A man (and the same may be said of a people) can secure the means of existence in two ways: by creating them or by stealing them.

Each of these two main means of procurement includes a variety of procedures.

We can *create* means of existence by hunting, fishing, farming, etc.

We can *steal* them by bad faith, violence, force, fraud, war, etc.

If, remaining within the limits of either one of these two main categories, we observe that the predominance of one or another of the procedures appropriate to it is sufficient to give rise to considerable differences among the nations, how much greater must not this difference be between a people that lives by producing and a people that lives by plundering!

For there is not one of our faculties, of whatever order, that is not called into use by our need to provide for our existence; and what can we conceive of that is more likely to modify the social condition of a nation than that which modifies all the human faculties?

This consideration, in spite of its importance, has received so little attention that I must pause to comment on it for a moment.

In order for man to obtain a satisfaction, he must have performed a certain amount of labor; hence, it follows that plunder, in all its varieties, far from excluding the act of production, presupposes it.

And this thought, it seems to me, is such as to moderate somewhat the infatuation of the historians, the poets, and the novelists for

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those heroic ages past when, according to them, what they call *industrialism* did not yet dominate society. In those days, as in our own, people had to live; then, as now, labor performed its hard task. But some nations, some classes, some individuals had succeeded in loading off onto other nations, other classes, other individuals, their portion of the general toil and drudgery.

Production or Plunder

The characteristic feature of production is, so to speak, to create out of nothing the satisfactions that sustain and beautify life, so that an individual or a people is enabled to multiply these satisfactions indefinitely without inflicting privation of any kind on other men or other peoples; quite the contrary: for careful study of the economic mechanism of a free society has shown us that the success of one man in his work improves the chances of success for others in their work.

The characteristic feature of plunder is its inability to provide any satisfaction without a corresponding privation, for it does not create; it diverts to its own ends what has already been created by the labor of others. It entails the absolute loss of all the effort it itself costs the two parties concerned. Far from adding to the enjoyments of mankind, it decreases them, and, moreover, it allots them to those who have not deserved them.

In order to produce, we must direct all our faculties toward the conquest of Nature; for it is Nature that must be fought, mastered, and subjugated. That is why iron beaten into a plowshare is the emblem of production.

In order to plunder, we must direct all our faculties toward the conquest of men; for they are the ones we must fight, kill, or enslave. That is why iron beaten into a sword is the emblem of plunder.

As great as is the difference between the plowshare that feeds and the sword that kills, so great must be the difference between a nation of workers and a nation of plunderers. It is not possible for there to be any common ground between these two. They cannot have the same ideas, the same standards, the same tastes, the same character, the same customs, the same laws, the same morality, or the same religion.

And surely one of the saddest sights that can present itself to anyone who loves mankind is that of a productive age bending all its efforts to infect itself—by way of education—with the thoughts, the sentiments, the errors, the prejudices, and the vices of a nation of plunderers. Our age is often accused of a lack of consistency, of a failure to show any correlation between the ideals it professes and the way of life it pursues. The criticism is just, and I believe that I have here indicated the principal reason why this situation prevails.

Plunder by War

Plunder by way of war, that is, rudimentary plunder, simple and undisguised, has its roots in the human heart, in man's nature, in the universal motive force that actuates the social world—his attraction toward satisfactions and his aversion to pain; in a word, in that motivating force that we all have within us: self-interest.

And I am not distressed at now being the one to indict self-interest. Until now the reader may well have believed that my veneration of this principle amounted to idolatry, that I attributed to it only happy consequences for humanity, perhaps that I even placed it above altruism, devotion, self-sacrifice. No, I have not passed any judgment on it; I have merely noted that it exists and that it is all-powerful. I should poorly appreciate its all-powerful nature and I should be guilty of contradicting myself in calling self-interest the universal motive force of mankind, if I did not now point it out as a source of discord, just as I previously indicated that it was the source of the laws that govern the harmony of the social order.

Man, as we have said, strives irresistibly to assure his own preservation, to improve his lot, and to attain, or at least to come as near as possible to attaining, happiness as he conceives it. For the same reason he shuns pain and suffering.

Now, labor, the operation that he must perform upon Nature in order to produce any-

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thing, is itself pain and drudgery. For this reason he is averse to labor and resigns himself to it only when it is the means of avoiding an even greater evil. Taking the philosophical point of view, there are those who say that labor is a boon. They are right if we consider its results. Relatively speaking, it is a boon; in other words, it is an evil that spares us greater evils. And that is precisely why men have such a great tendency to avoid labor, when, without recourse to it, they believe they can reap its rewards.

Others say that labor is in itself a boon; that apart from the results it brings in terms of production, it strengthens man morally and physically and is a source of happiness and health. All this is very true, and reveals once again the marvelous fecundity of God's providential design so abundantly evident in all His handiwork. Yes, even apart from its results in terms of production, labor promises man, as its supplementary rewards, strength of body and joy of soul; and since we have said that idleness is the mother of all vices, we must also recognize that labor is the father of many virtues.

But while all this is very true, it in no way changes the natural and irresistible bent of the human heart nor the attitude that causes us not to seek work for its own sake. We always compare our labor with its results. We do not devote more effort to a given task if we can accomplish it with less; nor, when confronted with two toilsome tasks, do we choose the greater. We are more inclined to diminish the ratio of effort to result, and if, in so doing, we gain a little leisure, nothing will stop us from using it, for the sake of additional benefits, in enterprises more in keeping with our tastes.

The Roots of War

Man's universal practice, indeed, is conclusive in this regard. Always and everywhere, we find that he looks upon toil as the disagreeable aspect, and on satisfaction as the compensatory aspect, of his condition. Always and everywhere, we find that, as far as he is able, he places the burden of his toil upon animals, the wind, steam, or other forces of Nature, or, alas! upon his fellow men, if he can gain mastery over them. In this last case, let me repeat, for it is too often forgotten, the labor has not been lessened; it has merely been shifted to other shoulders.[3]

Man, thus confronted with a choice of pains, the pains of want and the pains of toil, and driven by self-interest, seeks a means of avoiding them both in so far as possible. And it is then that plunder presents itself as the solution to his problem. He says to himself: It is true that I have no means of procuring the things necessary for my preservation and my enjoyment—food, clothing, and shelter—unless these things have previously been produced by labor. But they need not necessarily be produced by my labor. They need only have been produced by someone, provided I am the stronger.

Such is the origin of war.

I shall not dwell long on the consequences.

When things come to this pass, when one man or one nation labors while another man or another nation lies in wait, ready to spring and to seize the fruits when the labor is completed, the reader can appreciate at a glance what a loss of human energy is entailed.

On the one hand, the plunderer has not been able, as he had hoped, to avoid every kind of labor. Armed plunder itself requires effort and sometimes tremendous effort. Thus, while the producer devotes his time to creating the objects fitted to yield satisfactions, the plunderer uses his time in preparing the means of stealing them. But when the work of violence has been consummated or attempted, the objects of satisfaction are neither more nor less plentiful. They may satisfy the wants of different persons, but they cannot satisfy a greater number of wants. Thus, all the efforts that the plunderer has expended for plunder, and in addition those that he has not expended for production, are entirely lost, if not for him, at least for mankind.

Nor is this all. In the majority of cases a similar loss is involved for the producer. It is not at all likely that he will passively await, without taking precautionary measures, the event that threatens him; and all his precautions, weapons, fortifications, munitions, drill, are labor, and labor forever lost, not only for him who looks to it for his security, but for the human race.

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But, if the producer does not feel that, by thus undergoing double labor, he will be strong enough to resist the threatened invasion, the situation is much worse, and the waste of human energies is on an even larger scale; for in that case his work stops altogether, since no man is disposed to produce merely to be plundered.

As for the moral consequences, the manner in which both parties are affected, the result is no less disastrous. God decreed that man should wage war only against Nature, peacefully, and should reap directly from her the fruits of victory. When he gains dominion over Nature only through the indirect means of dominion over his fellow men, his mission has been perverted; he has turned his faculties in a wrong direction. Just consider, for example, the virtue of *foresight,* the anticipatory view of the future, which in a certain manner elevates us to the realm of *Providence,* for to *foresee,* to look ahead, is also to *provide,* to *look out for*;[4] consider how differently it is employed by the producer and by the plunderer.

The producer must learn the relation between cause and effect. To this end, he studies the laws of the physical universe and seeks to bring them more and more to his aid. If he observes his fellow men, it is for the purpose of foreseeing their desires and providing for them, in the hope of a return.

The plunderer does not observe Nature. And if he observes his fellow men, it is as a hawk spies out its prey, seeking a way to weaken it, to take it unawares.

The same differences are to be observed in the other faculties and extend to men's ways of thinking.

Plunder by means of war is not an accidental, isolated, temporary phenomenon; it is a very widespread and constant fact. Only labor is more permanent.

Show me, then, a place on the globe where two races of men, one a race of conquerors, and the other a race of conquered, are not superimposed. Show me in Europe or in Asia or in the islands of the sea a favored spot still occupied by its original inhabitants. If the migrations of peoples have spared no land, it is because war has been a universal phenomenon.

The traces war has left are equally widespread. Apart from the blood it has spilled, the booty it has captured, the minds it has warped, the faculties it has perverted, it has everywhere left scars, and among them must be listed slavery and aristocracy.

Man has not been content to plunder wealth as rapidly as it is produced; he has seized upon wealth already created, capital in all its forms. He has especially cast his eyes upon its most stable form, landed property. And finally, he has seized upon man himself. For since human faculties are a means of production, he has found it quicker to seize them than to seize their products.

What powerful disturbing factors these great events have been, what obstacles to the natural progress destined for mankind! If we take into account the extent to which labor has been wasted by war, if we consider the extent to which what remained of the product of labor has been concentrated in the hands of a few conquerors, we can well understand why the masses are destitute, for their destitution cannot be explained in our day on the hypothesis of liberty.

How the Warlike Spirit Is Fostered

Aggressor nations are subject to reprisals. They often attack; sometimes they have to defend themselves. When they are on the defensive, they feel that justice is on their side, and that their cause is holy. Then they laud courage, devotion, patriotism. But, alas! They carry these ideas over into their wars of aggression. And in that case what is patriotism?

When two races, one victorious and idle, the other conquered and humiliated, occupy the same land, everything that arouses likes and desires is the portion of the former. To it belong the leisure, gala affairs, love of the arts, wealth, military pomp and parades, grace, elegance, literature, poetry. To the conquered belong calloused hands, desolate hovels, repulsive clothing.

The consequence is that the ideas and attitudes of the dominant race, always associated with its military ascendancy, determine public opinion. Men, women, children, all place the

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soldier's way of life above that of the worker, war above labor, plunder above production. The conquered race itself shares this sentiment, and when it overcomes its oppressors, it shows itself in its process of readjustment disposed to imitate them—more than disposed, indeed, for this imitation becomes a frenzy.

How War Ends

Since the spirit of plunder, like the urge to produce, has its origin in the human heart, the laws of the social world would never be harmonious, even in the limited sense that I have indicated, if in the long run the urge to produce were not destined to overcome the spirit of plunder. □

1. Charles Comte (1782–1837), French economist, son-in-law of J. B. Say. Co-editor, with Charles Dunoyer, of *Le Censeur européen.*—Translator.

2. Saint-Marc Girardin (1801–1873), literary critic and scholar, professor of literature in the Sorbonne, member of the French Academy, also active in political life.—Translator.

3. We forget this when we ask: Is slave labor cheaper or more expensive than free labor?

4. In French, *prévoir* and *pourvoir.*—Translator.

Let us take a man belonging to a modest class in society. . . .

It is impossible not to be struck by the disproportion, truly incommensurable, that exists between the satisfactions this man derives from society and the satisfactions that he could provide for himself if he were reduced to his resources. I make bold to say that in one day he consumes more things than he could produce himself in ten centuries.

What makes the phenomenon stranger still is that the same thing holds true for all men.

We should be shutting our eyes to the facts if we refused to recognize that society cannot present such complicated combinations in which civil and criminal law play so little part without being subject to a prodigiously ingenious mechanism. This mechanism is the object of study of political economy.

—FREDERIC BASTIAT (1801–1850),
Economic Harmonies

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IDEAS ON LIBERTY
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Education

Can the Free Market Provide Public Education?

The short answer, of course, is: yes, look around. Right now, private enterprise and nonprofit organizations provide all manner of education—from comprehensive schools with classes in the traditional academic subjects, to specialized schools that teach everything from the fine arts to the martial arts, from dancing to dieting, from scuba diving to scrutinizing one's inner self.

If we define "public education" as "what the government does now," then it's a trick question. Every school serves members of the public. For the sake of this discussion, we can ignore that the word "public" has been corrupted to mean "coercively financed through the tax system." As an aside, there are signs that the words "private" and "market" are on their way to corruption as well.

The free market—and I include here both for-profit and nonprofit organizations—would provide even more education than it does now but for the "unfair competition" from government. Since government has a resource that private organizations lack—the taxpayers—it's able to offer its services for "free." They're not really free, of course; in the government context, "free" means that everyone pays whether he wants the service or not. Clearly, as long as government can tax its citizens and then provide educational services to them at a marginal price of zero, much private education will never come into being. How ironic that government vigilantly looks for predatory pricing in the private sector when *it* is the major offender.

There is certainly nothing about education that should lead anyone to doubt that the market could provide it. Like any other product or service, education is a combination of land, labor, and capital goods directed at a particular objective—instruction in academic subjects and related matters demanded by a class of consumers, primarily parents.

Here's where things may get contentious. Critics of market-provided education are uncomfortable with education's being treated like a commodity, subject to supply and demand. In the marketplace, consumers ultimately determine what is produced. Entrepreneurs take risks to serve *them*. And fickle consumers show no mercy when something new and attractive comes along. Ask the shareholders of Boston Chicken, among others.

Why should parents alone determine what is and what is not acceptable education? But why *not* parents? To whose hearts are the interests of children closer? Besides, most parents would no more make educational decisions without consulting knowledgeable authorities than they would make medical decisions without consulting doctors. The uninformed-consumer argument against free-market education is a red herring.

Parents, and the private sector, should be free to determine what is and what is not acceptable academic education for the same

Sheldon Richman is editor of Ideas on Liberty. *These remarks were presented at the Children's Scholarship Fund conference "Freedom and Equal Opportunity in Education," January 12, 2000, in New York City.*

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reasons they are free to determine what is proper religious education. We don't use the small number of neglectful parents as a pretext for government control or finance of religion. Nor should we use it as a pretext for government control or finance of schooling.

Defenders of government schooling have enlisted various economic arguments related to "market failure" to dispute the idea that parents in a free market should ultimately determine what educational services are offered. These arguments fail. Education does not have the characteristics of a "public good." One person's consumption of a given service can detract from another person's consumption, and nonpayers can be excluded.

Nor does the positive-externality case succeed. Education obviously does have spillover benefits, but that is not enough in economic theory to justify government action. You would have to believe that the external benefits would cause education to be underconsumed unless the government subsidized it. No one has ever shown that. Nor could anyone. To believe that, you'd have to believe that parents engage in the following reasoning: I'd like to buy X amount of education for my child, but since society will benefit by my child's erudition without paying anything for it, I'll buy less than X amount of education. Ridiculous, isn't it?

The argument that high-quality education is intrinsically too expensive for a significant portion of the population to afford also fails. A free market that can saturate society with refrigerators, microwave ovens, washing machines, and telephones—cellular and otherwise—can surely produce good education for a mass society. The key is entrepreneurship.

We think we know what education is and what methods work. And we do know some things. This sense of certainty might encourage us to think that education is best left to government. But we shouldn't be so presumptuous, or we could wind up like the nineteenth-century Patent Office official who said the office should be closed because everything useful had been invented.

The world is open-ended. We don't know exactly what we will learn tomorrow. As fallible beings, we can be sure that at any time, valuable information and opportunities are being overlooked. Scarce resources are being misdirected because our knowledge is incomplete. This is as true for education as for anything else.

What can we do to hasten the discovery and correction of error? We already have a method: entrepreneurship. What entrepreneurs do is search the landscape for instances where resources are being under-used, that is, devoted to the production of goods and services that consumers value less highly than other things those resources might be devoted to. What lures entrepreneurs to discover those instances is profit. Nothing approaches its power to stimulate discovery. Profit accrues when an alert entrepreneur, noticing what others have overlooked, switches resources from producing things consumers value less highly to producing things consumers value more highly.

The application of this principle to education should be obvious. Since we don't know today all that we may learn about educational methods and objectives tomorrow, we need entrepreneurship in education. Government isn't up to the task. Bureaucracy is the opposite of enterprise. It stifles enterprise. Government domination of education assures that the entrepreneurial innovation and creativity we are accustomed to in, say, the computer industry will be missing from education. There is no good substitute for the decentralized, spontaneous entrepreneurial process that full privatization of education would stimulate. But entrepreneurship has preconditions: freedom and private property on both the supply and demand sides. That means no government money. Asking for government finance is equivalent to the Founding Fathers' asking King George to finance the American Revolution. He might have agreed—but it would have been a very different revolution.

Thus it is not only the case that the free market *can* provide education. We may conclude further that only the free market *should* provide education. □

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IDEAS ON LIBERTY
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Economic Insecurity: Are We the Enemy?

by Christopher Lingle

A great paradox of our time is that former communist dictators win electoral credibility and the approval of international bankers by embracing the market while some candidates in America win considerable support and some elections by damning the market.

In some eyes the global capital market is a pernicious threat to global stability. Each new round of populist rhetoric implies that we are faced with a fundamental peril. Radical or revolutionary change is promoted to rid us of the malevolence of the market and its driving force, competition.

Arguments that blame markets for our woes fail to see that we are the targets. This is because markets are merely a summation of the results of actions arising from the myriad of decisions made by each of us every day. A full understanding of market processes indicates that if there is an enemy, it is us.

Some commentators describe markets as if they were the outcome of a conspiracy concocted on Wall Street. However, it is more accurate to describe markets as the outcome of choices made on Main Street. Certainly the choices of mutual fund managers and bond dealers are more prominent and better chronicled. Yet these self-important movers and shakers cannot match the power of the faceless masses. Power in competitive markets is always limited ultimately by the refusal of consumers to pay higher prices for what they perceive as lower quality products or when preferences shift without warning.

It is useful to understand what the market is and what it is not. Unfortunately it is difficult to make sense of the market in the context of an ongoing political debate that demonizes it. Despite having weathered withering criticisms and surviving real-world experiments with communism, the market economy remains under assault.

Flimsy Critiques

Many critiques of the market are deemed credible even though beginning university students could debunk most anti-market hype after a few weeks in an introductory economics course. It is understandable that non-economists like Robert Reich or Pat Buchanan can muddy the intellectual waters. This confusion is worsened by the apostasy of reputed economists with the prominence of Lester Thurow or John Kenneth Galbraith, who repeat ill-formed utterances about the workings of the market. Similarly, pronouncements by renowned financiers like George Soros or Felix Rohatyn or Robert Rubin reveal an expertise based on economic opportunism mixed up with their own political orientation. It is little wonder the general public becomes confused when stock market mavens are igno-

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rant of how their own success depends on the forces behind all market activities.

If the market reflects human choice, then competition is at its heart. Competition is the logical outcome of choices that drive economic behavior. Contempt and condemnation for market outcomes reflect an elitist view of the choices of the unwashed and ill-tutored. Those who accept such nonsense have taken the notion of "fallen man" a bit too far while being equipped with too little knowledge. It might be said that the market, like democracy, is the worst economic system available except for all the others.

In the first instance, economics is best understood to be a study of exchange arising out of choices guided by the life purposes of individuals. Second, it is these choices made in the face of competition that constitute the market. Finally, exchanges generate mutual advantage for trading partners and leads to a "positive-sum game" where all trading partners gain. Too often, anti-market forces portray international trade as a "zero-sum game," where gains to one country come at the expense of some others.

Although prices and markets can be temporarily distorted by government decree, they can never be eliminated. Markets operate whenever and wherever human beings act out their lives and whenever the setting is more complicated than Robinson Crusoe's.

Several aspects of economic life are inescapable; as in other aspects of life, exceptions tend to prove the rule. These can be combined in a single simple sentence that appears as banal to professional economists as it is considered evil by others. Self-serving actions taken by individuals in a competitive market setting provide benefits that spill over to the entire community. It is also true that there are spillovers of costs to other groups, but the fact that individuals have continued to rely on markets suggests that the spillover benefits dominate.

Markets require a set of certain supporting institutions such as property rights and extensive individual freedoms protected by an independent judiciary under a rule of law. Under these arrangements, free people can pursue their life purposes within the context of the market. In many ways, markets serve as a civilizing agent.

Development of Trust

Once accustomed to the interactions of the market, people tend to develop a greater regard for and sense of trust in strangers, which itself represents a form of investment in personal and corporate reputation. Transactions based on trust are more inclusive than purely personal relationships.

Markets inspire the development of a contract culture where the spirit of compromise becomes part of human interaction. In such a setting, equals are treated as equals just as unequals must also be treated as equals before the law. Governments or large corporations should not receive special treatment in the courts over individual citizens, and domestic interests should not override those of foreign claimants.

In this sense, markets are a necessary underpinning for democracy's success rather than a sufficient one. It is through the individualist-based institutions associated with and arising from the market that people can exercise true self-ownership to pursue their own chosen goals.

Condemning markets ignores the human content that lies behind them. Experiments with communism show that legislating against self-interest can have disastrous results. Instead, it is better to provide institutions that reward entrepreneurial actions so the overall community can benefit through the wealth and opportunities created by the market. □

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IDEAS ON LIBERTY
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The Evolution of Capitalism

by Jim Peron

A few centuries ago things looked pretty hopeless for Europe, at least according to "common wisdom" now accepted in political circles. The region was splintered among hundreds of local principalities with no unifying government, no common currency, and no common language. If today's typical political scientist had had to guess where a system of market capitalism would have arisen, it is doubtful he would have considered Europe a likely candidate. Instead China, with a unifying government and legal system, would have topped the list.

Yet capitalism did not arise in China's structured environment. It was amid the perceived political chaos of Europe that capitalism flourished. The very facets of medieval European life that today would be frowned on were necessary for the rise of capitalism. It evolved because it was free to evolve; its rules and principles were discovered, not imposed. And with the rise of capitalism, Europeans saw the emergence of classical-liberal political theories and concepts of human rights.

The centralized system of China, in comparison, did not allow such freedom, and thus short-circuited the discovery process. As David Landes writes in *The Wealth and Poverty of Nations*, what the Chinese state "did not take, it oversaw, regulated and repressed."[1]

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In *The Future and Its Enemies,* Virginia Postrel talks about how much more advanced the great Chinese empire was than European culture. Yet China shunned the dynamism of an evolving system. Postrel writes "that reactionary ideals, technocratic administration and monopoly power converged to enforce stability at the cost of stagnation. Even in its creative period, China's dynamism was primarily technological, not social, economic, or political; the government was both highly bureaucratic and absolutist. . . . The governing philosophy was one of order, subordination, and stasis. And like most bureaucracies, the mandarinate developed a strong interest in protecting the status quo. The system became reinforcing—a sterile verge between interests and ideology."[2]

More important than the regime's hostility to innovation was its monopoly on power. Would-be Chinese innovators had no outlet. The Chinese empire encompassed the equivalent of a continent, leaving no havens of creativity nearby. And because Chinese invention had always occurred under state auspices, there were no private enterprises to provide money and encouragement once the government stopped supporting innovation. State subsidy and hence progress itself could be turned off like a faucet.

Liberation of Civil Society

In *The Origins of Capitalism* Jean Baechler argues, "The first condition for the maximiza-

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tion of economic efficiency is the liberation of civil society with respect to the state. . . . The expansion of capitalism owes its origins and raison d'être to political anarchy."[3] Historian Ralph Raico says that Europe benefited because it was "radically decentralized" unlike China and India. "Instead of experiencing the hegemony of a universal empire," Raico writes, "Europe developed into a mosaic of kingdoms, principalities, city-states, ecclesiastical domains, and other political entities."[4]

The great modern European nations like France, Germany, and Italy were broken into hundreds of smaller political jurisdictions. The citizen of a German principality could move to another German political jurisdiction without experiencing a major culture shock. The only things that changed were the political policies.

Because of this mosaic, economic policies were localized. Areas experimented with different systems, and while some retained the feudal top-down system of control, others started freeing up the economy. If taxes and regulations in one kingdom became oppressive, people could move to a neighboring one. The difficulty in preventing such migration acted as a check on the power to tax. Regions that followed more liberal policies prospered over those that didn't. This is known as the demonstration effect. "The 'demonstration effect' that has been a constant element in European progress—and which could exist precisely because Europe was a decentralized system of competing jurisdictions—helped spread the liberal politics that brought prosperity to the towns that first ventured to experiment with them," Raico writes.[5]

Landes elaborates: "European rulers and enterprising lords who sought to grow revenues . . . had to attract participants by the grant of franchises, freedoms, and privileges—in short, by making deals. They had to persuade them to come. . . . These exemptions from material burdens and grants of economic privilege, moreover, often led to political concessions and self-government. Here the initiative came from below, and this too was an essentially European pattern. Implicit in it was a sense of rights and contract—the right to negotiate as well as petition—with gains to the freedom and security of economic activity."[6]

The involuntary devolution of power in Europe encouraged the social evolution that Postrel discusses. In every culture there always have been visionaries who see a potential for advancement and betterment. Each one of them, concentrating on his own wishes, in uncoordinated cooperation transforms and expands human potential. Landes notes that "where authority is divided, dissent flourishes. This may be bad news for certainty and conformity, but it is surely good for the spirit and popular initiatives."[7]

The conservative, in the true sense of the word, fears this change. Centralized power and a regulated economy are "conservative" means to prevent the dynamism and evolution of a free society. The truly radical movement of the time was economic individualism. And many observers have rightfully seen socialism as a "conservative" counterrevolution that attempted to preserve the feudal order.

Reaction Against Individualism

Social reform movements formed in response to individualism. In *A General History of Socialism and Social Struggle* Max Beer writes that these movements advocated "a modernized medieval order." Frightened by change, the reformers "could not accept ideas and demands and economic practices which were based on individual freedom . . . [which placed] egoism and self-interest before subordination, commonality and social solidarity."[8]

W. D. P. Bliss, a founding father of American socialism, in an article for the *New Encyclopedia of Social Reform*, spoke glowingly of the guild system of medieval Europe. He admitted, "This was paternal. Often socialistic in the extreme. It was as we have seen cruel—but it was with a just cruelty." E. R. A. Seligman, a prominent economist who helped found the American Economic Association, approvingly notes that the guild era "was a period of supremacy of labor over capital, and the master worked beside the artisan." Thomas Davidson, a founder of the British Fabian Society who later in life acknowledged

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the superiority of individualism and private property, wrote, "Feudalism was socialism; that is often forgotten."[9] No wonder Walter Lippmann said that collectivism "is reactionary in the exact sense of the word."[10]

We are accustomed to think of dissent in ideological or religious terms only. But it covers a wide range of human activity. Dissent in Europe did challenge traditional political arrangements and theological doctrines. But it also led to a questioning of scientific and technological positions. With the Reformation and the end of the Catholic monopoly on theology, the human mind was set free to ponder every aspect of human existence. Innovators came to fresh, often radical conclusions. The result was a new technological thinking that exploded into the Industrial Revolution. "The economic expansion of medieval Europe was thus promoted by a succession of organizational innovations and adaptations," Landes writes, "most of them initiated from below and diffused by example."[11] He calls this "The Invention of Invention."

The demonstration effect took place in specific locations with specific policies. Holland is one example. K.W. Swart writes that "the Dutch Republic was unique in permitting an unprecedented degree of freedom in the fields of religion, trade and politics. . . . In the eyes of contemporaries it was this combination of freedom and economic predominance that constituted the true miracle of the Dutch Republic."[12] According to Raico, Holland "emerged itself as a decentralized polity, without a king or court—a 'headless commonwealth' that combined secure property rights, the rule of law, religious toleration, and intellectual freedom with a degree of prosperity that amounted to an early modern *Wirtschaftswunder*."[13]

Capitalism did not appear in Russia, although, unlike China, it shared similar cultural and religious values with western Europe. "When pagan Russia entered the society of Christian civilization," Barbara Ward writes in *Faith and Freedom*, "the missionary task was accomplished by the monks and priests of Eastern Orthodoxy. Absolutist traditions of government were transmitted to the new society at the same time. The Russian state, which began to be reformed in Muscovy after the interregnum of Tartar invasion, grew from the fusion of two tyrannical traditions of government—Orthodox absolutism and Tartar despotism."[14]

Ward notes that "the total collapse of Roman authority" was the reason western Europe evolved toward liberalism while eastern Europe didn't. "In Byzantium . . . bureaucracy remained intact. . . . But in the West the barbarians broke up the old order."[15]

"Europe's great good fortune lay in the fall of Rome and the weakness and division that ensured," Landes writes.[16] Thus, ironically, the barbarians who invaded western Europe were unwittingly responsible for the development of capitalism. □

1. David Landes, *The Wealth and Poverty of Nations* (London: Little, Brown and Company, 1998), p. 35.
2. Virginia Postrel, *The Future and Its Enemies* (New York: Free Press, 1998), p. 209.
3. Jean Baechler, *The Origins of Capitalism* (Oxford, England: Basil Blackwell, 1975), pp. 77, 113.
4. Ralph Raico, "The 'European Miracle'" in *The Collapse of Development Planning*, ed. Peter Boettke (New York: New York University Press, 1994), p. 41.
5. Ibid., p. 44.
6. Landes, p. 37.
7. Ibid., p. 36.
8. Max Beer, *A General History of Socialism and Social Struggles*, vol.2 (New York: Russell & Russell, 1957), pp. 88–89.
9. William Knight, ed., *Memorials of Thomas Davidson* (Boston: Ginn & Co., 1907), pp. 142–43.
10. Walter Lippmann, *The Good Society* (Boston: Little, Brown & Co., 1937), p. 205.
11. Landes, p. 44.
12. K.W. Swart, *The Miracle of the Dutch Republic as Seen in the Seventeenth Century* (London: H. K. Lewis, 1969), p. 20.
13. Raico, p. 47.
14. Barbara Ward, *Faith and Freedom* (London: Hamish Hamilton, 1954), pp. 58–59.
15. Ibid., p. 59.
16. Landes, p. 37.

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Economics

It's the Margin that Counts

Economists, like everyone, have opinions about how the world should be. And it would be disingenuous to claim that economists never let their opinions influence their conclusions and recommendations. But the power of economics is in fundamental concepts that prevent economists from letting their imaginations obscure reality. They may wish that scarcity didn't exist, that agonizing tradeoffs could be avoided, that people would subordinate their private interests to the public interest, or that world peace and global cooperation could be achieved by all joining hands and singing "We Are the World." But economists don't let such fantasies pollute their analysis because they take seriously scarcity, opportunity cost, self-interest, imperfect knowledge, market prices as necessary for social cooperation, and economic failure as necessary for economic success.

This attachment to reality strikes some as defeatist, as too hasty to dismiss proposals for making the world a better place. There is no denying that economists dismiss many proposals to improve the world. But economists see their realism as essential for genuine improvements. As Nobel-Prize winning economist F. A. Hayek observed, "For it has always been the recognition of the limits of the possible which has enabled man to make full use of his powers."* Perpetual-motion machines would be wonderful things, and it's too bad everyone doesn't have one. But the "defeatist" attitudes of physicists discourage work on them.

One of the most useful economic concepts is marginalism—the effect of incremental, or small, changes. Marginalism shows how economic reasoning allows us to accomplish more by accepting limits on what can be accomplished—by focusing on marginal (some will say mundane) adjustments to make things better, rather than on more heroic attempts to solve problems totally and completely. It also shows that what many people see as objectionable outcomes and actions are actually reasonable accommodations to scarcity and that attempts to "correct" them are harmful. I illustrate marginalism with two examples. In following months I shall discuss how failure to understand marginalism reduces the good we can do, and often ends up being deadly.

Diamonds and Water, Wrestlers and Nurses

We have all heard arguments like these: Something is wrong with the economy when professional wrestlers are paid a lot more than nurses. Food is far more important than golf, so we are making a big mistake by converting so much prime agricultural land to golf courses. If you are going to do a job, do it as well

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*F.A. Hayek, *Law, Legislation and Liberty*, Vol. 3: *Rules and Order* (Chicago: University of Chicago Press, 1973), p. 8.

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as you possibly can. Most people enjoy their work and don't have to be bribed with bonuses and merit pay to get them to perform well. Some things, such as human life, are simply too valuable to put a price on.

Each of these sounds plausible. But all of them are flawed because they ignore the importance of marginal considerations, and if we acted on them we would end up reducing the good that can be accomplished.

For years economists and others were perplexed that the price of diamonds is far greater than the price of water, even though water is far more valuable than diamonds. This diamond-water paradox wasn't resolved until the 1870s when the Austrian economist Carl Menger and the British economist William Jevons independently recognized the difference between marginal value and total value. Price reflects the value people place on one more unit of something (its marginal value), not the value of all of it (its total value). The total value of water is obviously much greater than the total value of diamonds—we would pay orders of magnitude more to avoid living in a world without water than we would to avoid living in a world without diamonds. But because water is so plentiful (except in unusual circumstances), the amount people are willing to pay for one more gallon is close to zero—the marginal value of water is low. On the other hand, diamonds are so rare that people are willing to pay thousands of dollars for one more.

This brings us to wrestlers and nurses. Because so few have the physical attributes to satisfy the demand for wrestling performances, people are willing to pay a lot to attract one more person with those attributes into the ring. Many more have the attributes to satisfy our demand for nurses, and so people are willing to pay a lot less to attract one more person into nursing. Although the total value of nurses is far greater than the total value of wrestlers, the marginal value of nurses is far less. And it is the marginal value of people in an occupation, not total value, that is important in determining salaries in that occupation.

So there is nothing remarkable about professional wrestlers' earning a lot more than nurses, although some consider it objectionable. But what some really see as objectionable in the large ratio of wrestlers' to nurses' earnings is that people with "disagreeable" preferences have the freedom to communicate those preferences through market prices. There is nothing wrong with trying to reduce the earnings gap between different occupations by trying to change peoples' preferences. But if people try, as some do, to reduce earning gaps with government controls over wages and salaries, they are trying to distort the price communication that benefits us all.

Unintended Consequences

Government could mandate higher salaries for nurses, for example. This would send a signal that the marginal value people receive from nurses has increased, and more people should train to become nurses. Few professional wrestlers will want to shift into nursing, but many other people will. Unfortunately, the higher salary communicates the wrong information. While telling more people to become nurses, the higher salaries are telling consumers that the marginal cost of nurses is greater than their marginal value, and so fewer should be employed. The result would be that few newly trained nurses will find jobs, some practicing nurses will lose their jobs, and consumers will have fewer nurses than they want at market salaries, that is, salaries that reflect their marginal value.

Because people fail to distinguish between marginal value and total value, they believe nurses (and those in many other occupations) are suffering an injustice and recommend solutions that harm everyone, particularly nurses.

Several more columns will be required to adequately explain the concept of marginalism and to provide examples of the mistakes people make when they confuse marginal value and total value. In the next column I shall use marginalism to provide comfort to those who worry that we are running out of agricultural land. □

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Punishing the Many

by Russell Madden

Anyone who has observed children will recognize that, ironically, they often demonstrate a more stringent and uncompromising sense of justice than the adults around them. A small child who must divide a piece of cake, for example, will be excruciatingly precise in cutting it lest the "chooser" glom onto a larger slice. Whether the issue is whose turn it is to clear the dishes or take out the trash, or who broke that lamp, young people appeal to an almost innate sense of propriety in demanding they be treated fairly.

This tendency to rigor is perhaps even more evident when parents must mete out punishments and rewards. To be falsely penalized for something they did not do will stir up the loudest and shrillest of complaints among the innocent offspring. Unfortunately too many adults mildly, meekly, and silently accept such mistreatment when dealing with social and political issues.

The essence of a moral view of justice entails a recognition that only individuals can be held accountable for the right and wrong they do. Because each of us possesses free will and thus the capacity to make choices among alternatives, when we act on our best (or sometimes worst) judgment, we and we alone should reap the benefits of selecting wisely and appropriately; and we and we alone should suffer the negative consequences of picking hastily, foolishly, or ignorantly.

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If good and evil are to mean anything, our moral autonomy as beings with the capacity for rational behavior must be accepted. Any other basis for determining who is responsible for destructive or constructive outcomes leads to the kind of confused legal and political realm we labor under today.

This individualistic conception of justice did not always hold sway. Indeed, collective guilt has a long history. Throughout the past, whole families—sometimes entire cities—were held responsible for what fathers or kings might have done. The average citizen of ancient Carthage would have had little influence on the policies of his leaders. Nevertheless, he paid the price of Rome's disfavor when his home was razed and the ground salted.

Our Founding Fathers recognized the inherent injustice in accepting the doctrine of visiting unto the sons the sins of the father. Article III of the Constitution says that "no Attainder of Treason shall work Corruption of Blood." In other words, the family of a traitor cannot be punished simply because the members are related to the perpetrator.

The bulk of today's legal code, however, is rife with violations of this principle. The general collectivization of our culture in the twentieth century permeates every crack and crevice of our relationship with the law. Incoherently, our politicians hold individual citizens blameless for many of their deficiencies (being poor, homeless, drug- or alcohol-besotted, sexually promiscuous, or abysmally ignorant), while pointing a narrow finger at us

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all. "Society" does not provide enough resources or understanding or opportunities.

But "society" is only an abstraction, a way of describing the relationships, actions, and beliefs of *individuals*.

In addition to supplying a (poor) rationale for the plethora of social programs dragging us down, from Social Security and Medicare to business subsidies and disaster relief, the notion of collective responsibility, obligation, or guilt obliterates proper understanding and application of justice and equity by punishing the innocent majority for the transgressions of the criminal few.

Most regulations, laws, and prohibitions are propounded by pointing out that abuses have occurred in the past. Thus because certain people have engaged in improper behavior, *everyone* must be presumed to be a potential criminal and have his choices and actions inspected, constrained, or curtailed. Such legal machinations act as a kind of prior restraint. They sanction the notion that the agents of the government must, in essence, punish citizens for *potential* improprieties beforehand by means of dictates, fees, or restrictions on what they do and how they do it.

But an implicit assumption of guilt—before a person has even acted—violates the constitutionally recognized principle that one can be punished only after one has actually done something wrong. Even then, the legal system must assume the innocence of the accused until proven guilty. To make the accused prove he is innocent—as most regulations on business and individuals in effect do—is rank injustice. To add insult to the injury, many of the laws strangling us today are based on some group's notion of morality regardless of whether or not offenders have actually violated anyone's rights. (The consensual "crimes" related to prostitution, drug use, and gambling come to mind.)

Affirmative action policies punish those who were never racist for the sins of those long dead, an indirect "corruption of blood." Business regulations assume that only state scrutiny prevents all entrepreneurs from being polluters, swindlers, and cheaters. Sexual harassment and anti-discrimination laws (whether for sex, race, ethnic background, age, or disability) make us out to be bigots held in check only by the good graces of the bureaucrats.

Tens of thousands of gun control laws treat peaceful, rights-respecting individuals as criminals held at bay only because they must jump through arbitrary, unconstitutional hoops that disarm and endanger millions while leaving the field unchallenged to the rapists, robbers, and burglars.

The rule of law has morphed into the rule of men. The Constitution has been turned on its head. Instead of the individual being at the pinnacle of the pyramid, he is crushed by the weight of the masses who take precedence in their anonymity over his unique life and personality. Instead of the individual being able to do anything not prohibited and the government only that which is permitted, in modern society the state has virtual carte blanche to chase after every whim. The true, fundamental component of our culture—a single real, breathing person—is bound and chained, able to choose only from a shorter and shorter list of what is allowed him as a privilege, not a right.

The very notion of rights has been both bloated and choked. On the one hand, "rights" to health care, housing, food, education, and on and on are manufactured out of thin air. On the other hand, property rights—the foundation for implementing the right to your own existence—are suppressed by the rampant moral inflation of bogus rights. Coupled with both malign neglect and direct attacks on property, we drift without legal anchor or direction.

To restore freedom, we must reclaim the moral initiative. We must reconsecrate respect for justice as applicable to the individual, not the collective. We must hold as sacrosanct our right to earn and hold property, to direct its use, and to wield it as a shield against malefactors. We must proclaim our right as free, autonomous, and sovereign individuals to do what we want, say what we will, and build our lives without the permission, sanction, or approval of any group. We should and must never be punished for the transgressions of others. □

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The Golden Rule and the Free Market

by William H. Peterson

How tantalizing to find that virtually all the world's major religions exalt the Golden Rule in one way or another:

Christianity: All things whatsoever ye would that men should do to you, do ye even so to them.—Matthew 7:12

Judaism: What is hateful to you, do not to your fellow man.—Talmud, Shabbat 31a

Islam: No one of you is a believer until he desires for his brother that which he desires for himself.—Koran

Buddhism: Hurt not others in ways that you yourself would find hurtful.—Udanavarga 5:18

Confucianism: Is there one maxim which ought to be acted upon throughout one's whole life? Surely it is the maxim of loving-kindness: Do not unto others what you would not have them do unto you.—Analects 15:23

Yet how equally curious to find that this near universality of the Golden Rule doesn't always mean like exaltation in its natural expression in trade, commerce, business—that is, in the free market. Look: A not uncommon campus joke today is: "Business ethics—isn't that an oxymoron?" And there's Oliver Stone's character Gordon Gekko in the movie *Wall Street* proclaiming that "greed is good." And there's First Lady Hillary Clinton on the campaign trail in New York State condemning high prescription prices. And there's "globophobia"—Mexican president Ernesto Zedillo's neat word for the fear of world market integration. And there's U.S. Judge Thomas Penfield Jackson ruling that software giant Microsoft is an anti-consumer "monopoly." Those are the sorts of things that compelled Ludwig von Mises in 1956 to pen *The Anti-Capitalistic Mentality*.

The long and short of the Golden Rule is that, for all its common sense, it runs up against a cultural wall when it comes to the world of business. Oh, all right, business has a place in the big scheme of things, but laissez-faire economics is simply bad; unconstrained business activity will never do; and government regulation such as OSHA and antitrust enforcement has to discipline wayward commerce. Of course.

Sadly, the history of such anticommerce sentiments is as long as the history of the Golden Rule. Sophocles, for example, complained in *Antigone* (c. 450 B.C.), "Money lays waste cities; it sets men to roaming from home; it seduces and corrupts honest men and virtue to baseness; it teaches villainy and impiety." Plato groused in *The Republic* (c. 390 B.C.), "Wealth is the parent of luxury and indolence, and poverty of meanness and viciousness, and both of discontent." Paul in his first epistle to Timothy (3:8) complained of greediness and "filthy lucre." Later in the same epistle he protested that "The love of money is the root of all evil."

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What to do? Let me respond: Educate, educate, educate.

Educate just what? Educate, first, that "greed" denoting narrow-minded cupidity and covetousness is often a pejorative for innate self-interest, that self-interest is in fact an integral part of human nature, a point captured in the very title of the Mises masterwork, *Human Action* (1949). Indeed, here Mises introduces the word "praxeology" as the science of human action, saying the "ultimate end of action is *always* the satisfaction of some desires of the acting man" (emphasis added). Too, Nobel-Prize-winning economist Milton Friedman said self-interest serves both money-grubbing misers and the "great Saints of history." Friedman continued, "Every individual serves his own private interest," adding that the "private interest is whatever it is that drives an individual" (*Encounter*, November 1976). Or as the late Nobel economist George Stigler reflected, "Man is eternally a utility-maximizer—in his home, in his office (be it public or private), in his church, in his scientific work—in short, everywhere" (Tanner Lectures, Harvard University, April 1980).

The Sovereign Consumer

Educate further that the real bosses turning the wheels of industry and commerce are not the captains of industry, nor tycoons and bankers bestriding Wall Street, nor Matthew Josephson's "robber barons" of yore, but the sovereign consumers. These individuals, with their life-and-death power of the purse in the marketplace, vote poor people rich and rich people poor. Mises adds to this line of reasoning by reminding us that inequality of income and wealth is but the result of previous consumer votes, that to stay successful entrepreneurs must continue to serve best the demands of the very demanding and often fickle consumers.

Finally, educate that the Golden Rule reaches magnificent critical mass in the global marketplace, that it tends to enlist peoples and private-property rights everywhere to engage in "World Peace Through World Trade" (a motto of IBM), that buyers and sellers, consumers and producers—all broadly embodied in one and the same person, by the way, if in different modes at different times and different places—serve others to serve themselves, that they say in effect: "Let me buy/sell with you in order that you will buy/sell with me."

Thus does the marketplace become a vast vehicle for "social cooperation," in the phrase of Mises, or for "spontaneous order," in the language of F. A. Hayek. And thus is the market, unlike the state, strictly voluntary and self-regulating, with high prices repelling demand and encouraging supply, and low prices repelling supply and encouraging demand. It spurs a spirit of service and community, of contract and duty, of self-accountability, self-responsibility, and future-orientation; it nurtures saving, entrepreneurship, and invention to boost capital creation, resource optimization, world job productivity, and living standards. And all without the dead weight of party and politics. No wonder Hayek called the marketplace a "marvel."

I call it the Golden Rule in action. □

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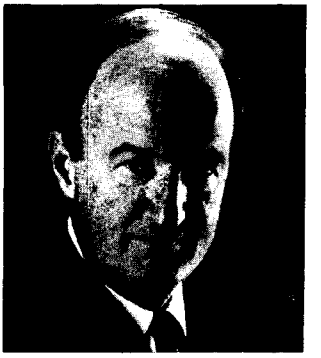

In Defense of the Rich

"The substantial canons of the leisure-class scheme of life are a conspicuous waste of time and substance and a withdrawal from the industrial process."

—THORSTEIN VEBLEN[1]

Ever since Thorstein Veblen wrote *The Theory of the Leisure Class* in 1899, wealthy Americans have been under assault. Veblen had nothing good to say about the so-called idle rich and robber barons—they were predatory, wasteful, and ostentatious.[2] Politicians and Hollywood producers have followed up by portraying the rich as big spenders who use drugs, engage in white-collar crime, avoid taxes, and dump their original mates in favor of trophy wives.

Now a new study by Thomas J. Stanley, former professor of marketing at Georgia State University, shows that this pejorative image of wealthy Americans is profoundly mistaken. According to his new book, *The Millionaire Mind,* millionaires are model citizens. Here are the results of his survey of over 1,000 millionaires:

• They live far below their means and have little or no debt. Most pay off their credit cards every month; 40 percent have no home mortgage at all.

• They are frugal. They prepare shopping lists, resole their shoes, and save a lot of money. But they do not live Spartan lives.

• Ninety-seven percent are homeowners; they tend to live in fine homes in older neighborhoods. (Only 27 percent have ever built a custom home.)

• Ninety-two percent are married; only 2 percent are currently divorced. Millionaire couples have less than one-third the divorce rate of non-millionaire couples. The typical couple in the millionaire group has been married for 28 years and has three children. Nearly 50 percent of the wives do not work outside the home.

• Most are one-generation millionaires who became wealthy as business owners or executives; they did not inherit wealth.

• Almost all are well educated: 90 percent are college graduates and 52 percent hold advanced degrees. However, few graduated top in their class; most were "B" students. They learned two lessons from college: discipline and tenacity.

• Most live balanced lives; they are not workaholics: 93 percent listed socializing with family members as their number one activity; 45 percent play golf.

• Fifty-two percent attend church at least once a month, 37 percent consider themselves deeply religious.

Mark Skousen (http://www.mskousen.com; mskousen@aol.com) is an economist at Rollins College, Department of Economics, Winter Park, FL 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *His textbook,* Economic Logic, *is now available from FEE.*

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• They share five basic ingredients to success: integrity, discipline, social skills, a supportive spouse, and hard work.

• Sixty-four percent contribute heavily to charity, church, and community activities.

• Their number one worry: taxes! Their average annual federal tax bill: $300,000. The top one-tenth of 1 percent of U.S. income earners pays 14.7 percent of all income taxes collected![3]

• "Not one millionaire had anything nice to say about gambling."[4] But 33 percent have played the lottery at least once during the year!

Thus we see how the upper-income families of this nation are not the ones contributing to crime, welfare, divorce, child abuse, and a spendthrift society. But they are paying a lot of taxes and making a lot of contributions to solve these social problems.

Low-Profile Living

Stanley is famous for his previous best-seller, *The Millionaire Next Door* (Pocket Books, 1998). His research revealed that most millionaires in America appear ordinary; they own modest homes and drive older cars. But they work hard, save a lot, and make their own investment decisions. In other words, the guy living next door may be a millionaire.

Although Stanley did not cover this issue, I've also seen studies indicating that higher-income individuals live, on average, five to ten years longer than the average American (76 years) and enjoy better health, fitness, and quality of life. They aren't the ones causing Medicare to go bankrupt.

The existence of a wealthy class provides numerous benefits to the entire economy:

• Wealthy people are the first to buy new consumer products. They are the only ones who can afford to buy automobiles, computers, cell phones, and other technological breakthroughs when they are first introduced as high-priced prototypes. The profits from the wealthy consumers are used to expand operations and cut prices so that eventually everyone can afford them. As Andrew Carnegie said, "Capitalism is about turning luxuries into necessities." Inequality of income makes this possible.

• The wealthy class is the main source for investment capital. The rich provide the capital base for investing in new technologies, improved production processes, and job creation. Without the wealthy, there would be little surplus wealth for an expanding economy.

• The rich help finance higher education, libraries, churches, galleries, and charitable organizations.

Instead of bashing the rich, let's salute them. If indeed the wealthy are such good citizens, as Stanley's work suggests, we should aim not to impoverish the rich, but rather to enrich the poor. □

1. Thorstein Veblen, *The Theory of the Leisure Class* (New York: Penguin Books, 1994 [1899]), p. 334.
2. For an excellent review of Veblen's philosophy, see John Patrick Diggins, *Thorstein Veblen: Theorist of the Leisure Class* (Princeton, N.J.: Princeton University Press, 1999 [1978]).
3. Thomas J. Stanley, *The Millionaire Mind* (Kansas City: Andrews McMeel, 2000), p. 375.
4. Ibid., p. 11.

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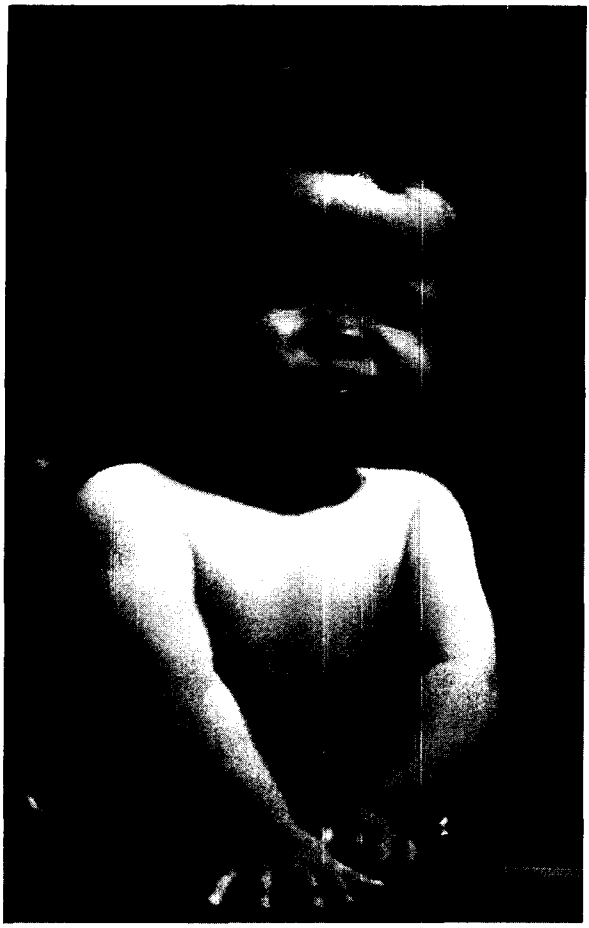

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BOOKS

A Republic, Not An Empire: Reclaiming America's Destiny

by Patrick Buchanan

Regnery • 1999 • 437 pages • $29.95

Reviewed by Doug Bandow

"The year 1989 was the American moment," writes Patrick Buchanan in *A Republic, Not An Empire*. The United States was supreme around the globe. "But such moments never last," he continues. Rather than leaving others with no choice but to break U.S. power, Buchanan writes, "It is time to let go of empire."

A Republic, Not An Empire is a genuinely important book. Although Buchanan has gained greatest attention for his economic nationalism, he is probably America's most visible proponent of a more noninterventionist foreign policy. In this book, the author presents his vision of a foreign policy fit for a constitutional republic.

It's a message that deserves wide dissemination because the stakes are high. This century, he notes, has witnessed the collapse of five great Western empires: Austro-Hungarian, British, French, German, and Russian. Today "America survives as the sole superpower because it stayed out of the slaughter pens until the other great powers had fought themselves near to death." That mixture of good fortune and sense is at risk, however. Buchanan warns that "today, America's leaders are reenacting every folly that brought these great powers to ruin—from arrogance and hubris, to assertions of global hegemony, to imperial overstretch, to trumpeting new 'crusades,' to handing out war guarantees to regions and countries where Americans have never fought before."

The fundamental question of a foreign policy is: for what should young Americans be expected to fight and die? Today's strategic "balance sheet," as Buchanan refers to it, should be positive, given America's status as the world's sole superpower. However, the debits are shockingly numerous: commitments to central as well as western Europe, the Balkans, the Middle East and Persian Gulf, a variety of Asian states, and Latin America.

Washington is taking on those many risks even though in none of them, observes Buchanan, "would any vital U.S. interest be at stake to justify sending a large American army to fight or to risk nuclear war." Washington should, he contends, conduct "a 'bottom-up' review of all of its commitments."

Generally, Buchanan's arguments are highly persuasive. Intervention not only tends to be costly in the short term, but also is usually disastrous in the long term. There was, he notes, "not a trace of national interest" involved in World War I. Either a German victory or a compromise peace, the most likely occurrence in the absence of America's entry, would not have endangered the United States. However, Washington's involvement allowed the allies to impose a one-sided peace, without which there would have been no Hitler. And, writes Buchanan, "There might have been no Holocaust, no quarter-century reign of Stalin, no Cold War."

Alas, an economic nationalist to the end, Buchanan would discard free trade along with corporate welfare (Export-Import Bank), subsidies for collectivist autocracies (International Monetary Fund), and world government ("war crimes" tribunals). Unfortunately, he confuses voluntary individual action and coercive state action. It is protectionism, not free trade, that relies on the latter, and thus fits most comfortably with other globalist institutions.

Buchanan's proposed foreign policy, one relying on a militarily strong America prepared to defend its sovereignty and vital interests, but unwilling to engage in fruitless and costly international crusades, is the only appropriate policy for a republic. Nevertheless, crafting a more restrained foreign policy, he concludes, would leave America "serene and secure," and perhaps cause men looking back a century hence to conclude "that, yes, the twenty-first century, too, was an American Century." □

Doug Bandow is a monthly columnist for Ideas on Liberty.

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Winners, Losers and Microsoft
by Stan Liebowitz and Stephen Margolis
Independent Institute • 1999 • 304 pages • $29.95

Reviewed by James L. Gattuso

Artemus Ward once remarked that the problem with the world isn't what we don't know: "It's the things we know that just ain't so." That observation aptly describes the current debate over standards and competition in the high-tech field. Everyone *knows* that in video recorders Beta was better than VHS, but that VHS somehow won an illegitimate victory in the marketplace. And who doesn't have a Macintosh fan for a friend who *knows* Macs are better than PCs, but lost out because of a market failure.

In *Winners, Losers and Microsoft*, economists Stan Liebowitz and Stephen Margolis put the lie to these long-standing high-tech legends. Sifting through the historical record, they find that the best product is, after all, usually the winner. This well-researched, fact-filled volume has obvious implications for the ongoing prosecution of Microsoft, as well as other attempts to regulate high-tech network-based firms. Though written before the release of Judge Thomas Penfield Jackson's decision, Liebowitz and Margolis thoroughly undercut the economic basis of the judge's conclusion.

The primary target of the book is the economic theory of "path dependence," or "lock-in," under which some (including Judge Jackson) argue that inferior products can survive—and thrive—because consumers are locked in to their use. Each individual consumer may want to move to a competing product, but is unable to do so because of fear that other consumers would not also make the change. The classic (though far from high-tech) example of path dependence has long been the typewriter keyboard arrangement now in use (known as "QWERTY," from the first five letters on the second row). QWERTY was developed for the typewriters of the nineteenth century and according to popular myth would have been replaced long ago were it not for lock-in. During the 1930s, a competing system—the Dvorak Simplified Keyboard—was developed and was, according to the story, far more efficient. But few would learn Dvorak because no typewriters were made with that arrangement, and no typewriters were made because few would learn it. Its failure to become the prevailing keyboard indicates that the market doesn't work, many economists say.

Nonsense, say Liebowitz and Margolis in their classic article, "The Fable of the Keys," which appears in this volume. No reputable study exists showing that Dvorak was better. All evidence suggests that QWERTY is as good as or better than its alternatives. Yet the legend dies hard. In the ten years since their research first appeared, no one has rebutted it, yet QWERTY is still routinely, and wrongly, cited as a "market failure." Going beyond QWERTY, Liebowitz and Margolis examine several similar—and more recent—alleged cases of the lock-in effect, including the Beta-VHS and Mac-IBM contests. In each case, they find that quality factors explain the successes more easily than path dependence or other "economic things that go bump in the night."

At the core of this volume is an empirical analysis of competition in software applications. Specifically, the authors look at six applications markets: spreadsheets, word processors, personal finance, desktop publishing, browsers, and online services. Is there any evidence, they ask, of lock-in in software? Or are market shares determined by product quality? Do Microsoft products get an unfair leg up?

But how can one empirically measure product quality? Here the authors come up with a creative approach: they use trade magazine reviews of each product to judge how each fared against its rivals over time. The results showed no evidence of lock-in: time and again, products rated more highly push out market incumbents—Excel over Lotus, Word over WordPerfect, AOL over CompuServe.

Is Bill Gates leveraging his Windows market power to give Microsoft applications an unfair edge? No, say the numbers. Microsoft products that dominate are those rated higher.

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Those that lose the quality battle—such as Microsoft Money—do not dominate. Moreover, the evidence shows that Microsoft's success isn't always based on its Windows home-field advantage: many of its applications successes have come first in Mac applications, where Microsoft has no such advantage. Importantly for the Microsoft case, the study also finds that Microsoft Internet Explorer's gains against Netscape Navigator can also be explained by quality differentials.

Liebowitz and Margolis do find one clear effect of Microsoft's involvement in a market. Rather than increase prices, as Judge Jackson would have one believe, markets with a Microsoft presence have actually seen prices decline four times as fast as those without a Microsoft entrant.

While comprehensive and fact-filled, *Winners, Losers and Microsoft* is written in an informal, and at times even humorous style, making it good reading for laymen as well as experts. It makes a convincing case that competition is not nearly so fragile in high-tech network markets as we've been told. Instead of many products competing at the same level, there is often a dominant one. But no product is immune from challenge by a better one. In the end, consumers get better things at lower prices. □

James L. Gattuso is vice president for policy and management at the Competitive Enterprise Institute.

Dangerous Donations

by Eric Anderson and Alfred A. Moss, Jr.

University of Missouri Press • 1999 • 245 pages • $34.95

Reviewed by George C. Leef

If government didn't build and support schools, almost everyone would be ignorant—right? Believers in liberty often have to argue against that canard. *Dangerous Donations: Northern Philanthropy and Southern Black Education, 1902–1930,* by historians Eric Anderson and Alfred Moss, shows the remarkable extent to which northern citizens voluntarily supported the education of southern blacks when government support was almost entirely absent. That was the good news.

The book also gives the bad news—how that support was gradually shifted from independent schools for blacks to the promotion of *public education* for them, which would of course be under the control of the white political establishment. That tragic shift was brought about by "professional" philanthropic managers who pushed a socialistic agenda financed by people who for the most part hated socialism. (That problem is discussed in Martin Morse Wooster's *The Great Philanthropists and the Problem of Donor Intent,* which I reviewed in the October 1999 issue.)

There had been increasing financial support for the education of southern blacks in the years between the end of the Civil War and the turn of the century, coming mainly from church groups in the north. Those efforts were dwarfed in 1902, however, when John D. Rockefeller established the General Education Board (GEB) and gave it $33 million over the next decade. Several other funds with the same mission were established within the next 15 years. The combined efforts of the church groups and the philanthropists led to the founding of numerous private schools for and mostly staffed by blacks. Their success is evidenced by the precipitous decline in illiteracy among southern blacks in the early years of the twentieth century.

But black education was unpopular with white supremacists. The authors write, "White extremists denounced both [Booker T.] Washington and his northern friends, accusing the promoters of black schools of failing to prepare African Americans for their subordinate place in a segregated society." Educational freedom was as much a threat to the comfortable world of the white racist as freedom of information would be to the world of communist dictators decades later.

The northern church groups were never concerned that black education might upset white racists, but the philanthropic managers took a different view. Anderson and Moss state that "fear of southern white opposition played an important role in the structuring of

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northern philanthropy for the south. This is especially true of the GEB's decision in 1911 to endorse "the policy of cooperating with the white people of the South in promoting Negro education, thus making the stimulation of government spending on public education the first priority of its programs."

One of the villains of the piece is Abraham Flexner, better known for his report that laid the cornerstone for the American Medical Association's domination of medical education. Flexner, a GEB trustee of great influence and dyed-in-the-wool educational "progressive," feared competition between private and public schools, contending that "public school development might be retarded or injured if these private schools are made more permanent." No wonder that by 1915, many blacks had come to view the GEB more as a foe than a friend.

Another villain is Edwin Embree, president of the foundation established by Sears, Roebuck executive Julius Rosenwald. Embree wrote scornfully of "little private Negro schools" that could never "meet the problem of education." Embree believed that could be done only through "the public funds of the states and localities." He even went so far as to discourage donations to private black schools.

All of this was bad enough, but the "professional" attitude spread to the churches eventually. By 1930 the Protestant missionary societies were actually closing down successful black schools they had previously supported. Anderson and Moss write, "Only the steady reassurance of unexamined assumptions enabled the northern religious philanthropies to [close their schools], certain that simply seeking denominational adherents was an atavistic goal, that private schools were inferior to public institutions, that distant central planners were more likely to create a useful curriculum than local parents, and that long-established loyalties could be readily transferred to new organizations."

One vignette is especially poignant. In 1930 northern financial support for the Burrell School in Florence, Alabama, was stopped. A white Presbyterian minister who was a member of the local school board expressed his regret: "There is a quality about your school that is lacking in all our schools, white as well as colored. We need that quality, but with the passing of Burrell, it will be gone."

Depressing but instructive, *Dangerous Donations* tells us much about the ill effects of philanthropy managed by "professionals" pursuing their own visions, and justifies a healthy dose of skepticism about government education. □

George Leef is the director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of Ideas on Liberty.

Environmental Cancer: A Political Disease

by S. Robert Lichter and Stanley Rothman

Yale University • 1999 • 235 pages • $35.00

Reviewed by Conrad F. Meier

Environmental Cancer: A Political Disease, by S. Robert Lichter and Stanley Rothman, is a studied attempt to prove that the phrase "environmental cancer" has been used insincerely by activists, politicians, and the media in an attempt to further public-policy agendas that often undermine individual freedoms. Lichter (president of the Center for Media and Public Affairs) and Rothman (director of the Center for the Study of Social and Political Change at Smith College) have created a tightly written, highly readable examination of the controversy surrounding environmental cancer and the great abyss between the realities of hard science and the cancer "crisis-of-the-week" reports from assorted activist groups and journalists.

The authors begin with an environmental history lesson and proceed to explain the biological and medical understanding of cancer. Second, they address the relative importance of various environmental causes of cancer and examine some of the scientific and political controversies. Third, they review the uses and abuses in the analysis of environmental cancer data. Finally, they describe the "issue net-

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work" of interest groups, politicians, journalists, lawyers, and others involved in environmental regulation. It is a thoroughly valuable effort.

Of particular merit in the attempt to separate fact from fiction are the surveys of cancer researchers and environmental activists. The authors identify the sharp differences between the two groups' views and compare them to the content of media accounts over two decades. That comparison shows that the media frequently cite the views of environmental activists as if they were the views of the scientific community.

The skewing of scientific data is accomplished not just by the choice of stories to report, but also a reporter's selection of "experts" to quote. Two "experts" frequently cited are Sidney Wolfe of Public Citizen and Samuel Epstein of the University of Chicago. Both claim that just about everything in the environment causes cancer and that private enterprise is usually responsible. Yet three of four cancer researchers surveyed express little confidence in the work of Wolfe and Epstein.

We also learn scientists are not happy that their scientific findings are distorted and misreported to the public. Using an example of three natural carcinogens—tobacco, sunlight, and radon—half of the scientists surveyed believe the media's presentation of cancer's causes and risks is unfair and inaccurate.

In addition, the studies reveal serious differences attributed to the news media: 72 percent of the scientists surveyed found the *New England Journal of Medicine* highly reliable, while less than a fourth found the *New York Times* trustworthy. Since the general public does not read the *Journal* it is fair to say many Americans have been dumbed down with environmental falsehoods, and the authors conclude that misplaced fears about the risks of environmental cancer have seriously distorted public policy.

"Environmental cancer," the authors write, "is ambiguous, conveying quite different meanings to cancer researchers and lay audiences. This confusion about definitions provides a partial explanation for the sometimes exaggerated charges made against consumer goods, industrial products, pesticides and herbicides, food additives and preservatives, and air and water pollutants, among other things."

The scaremongers have done great damage—the Alar campaign is a case in point—but Lichter and Rothman conclude on a modestly positive note: "practicing scientists have begun to take a more active role in publicly assessing risks from various activities and substances. In some respects segments of the public are gradually taking a more realistic view of environmentally triggered cancer."

That optimism, however, is tempered by the fact that most Americans are scientifically ignorant. Reflecting on a 1996 National Science Foundation study, the authors write, "only 9 percent of adult Americans know what a molecule is, and only 5 percent can give an explanation of acid rain. More startlingly, less than half know that the earth orbits the sun annually. It is little wonder that the struggle against the bending of science to serve ideal or material interests never ends."

Precisely. □

Conrad F. Meier is health policy adviser for the Heartland Institute in Chicago and assistant in research at the Center for Advanced Social Research, University of Missouri-Columbia.

Rethinking Orphanages for the 21st Century

edited by Richard B. McKenzie

Sage Publications • 1999 • 327 pages • $27.95

Reviewed by Daniel T. Oliver

America's government-run foster care system has miserably failed the most vulnerable children in our society. It is a complex and expensive bureaucracy administered by social workers whose overriding goal is "family preservation"—that is, counseling troubled or abusive parents in efforts to reunite them with their children who have been placed in what is supposed to be temporary outside care. The trouble is that this counseling may go on for years as children are shuffled from foster home to foster home, never experiencing life in a stable, loving family.

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Children are also sometimes returned to abusive parents. As many as 700,000 children will spend all or part of this year in foster care, and the number is growing.

Rethinking Orphanages for the 21st Century argues convincingly that the private sector is better able to care for these children. It includes 15 essays that discuss the history of children's homes, or private orphanages, and the policy reforms needed to revive them (only a handful remain).

McKenzie, who grew up in an orphanage in the 1950s (and who rates his experience very highly), challenges the widespread notion that orphanages are undesirable places. He asks why it is considered acceptable for wealthy parents to send their children to boarding schools to receive education and moral instruction, but inappropriate to send children from unsafe, abusive homes to similar institutions. He presents findings from his own survey of middle-aged and elderly alumni from nine orphanages, almost all of whom look back on their orphanage experiences favorably. And interestingly, most of them outpace the general population in terms of education, income, and attitude toward life.

The essayists identify several reasons why orphanages have declined in this century. As poverty rates fell in the 1950s and 1960s, fewer parents had to abandon children they could not afford to keep. The social work profession has also disparaged orphanages and vigorously lobbied to expand state foster care. And the cost of running orphanages has increased because of new liability laws that hold institutions accountable for any harm children might incur while working. Most orphanages have reduced or eliminated child labor, such as on-site farm work, that at one time reduced their operating costs. Yet the essayists note that such work once instilled the values of discipline, responsibility, and team effort. Indeed, critics often cite "regimentation" as the chief drawback of orphanages. Yet this is what former orphans believe is their chief strength.

Rethinking Orphanages suggests several policy reforms that could help to revive children's homes. Among them: broadly liberalize state licensure statutes and regulations, giving providers greater authority to make their own staff and program decisions; eliminate statutes and regulations that discourage the use of volunteers and resident labor that could reduce operating costs; convert government child-welfare funds to block grants, allowing states greater flexibility in placing children into permanent adoptive or children's homes rather than in temporary foster care.

McKenzie and other contributors also propose reforms to reduce the amount of time children spend in foster care and to make placement in permanent care settings more common. Two are noteworthy: assign the police and the criminal justice system, rather than social workers, to conduct the initial investigation of cases of significant abuse and neglect (eliminating a conflict of interest in the current child welfare system that usually investigates and also apportions funds for cases of abuse and neglect); and place a time limit, preferably 12 months, on abusive and negligent parents to rehabilitate themselves. If children cannot be safely returned to their parents after one year, those parents should forfeit any right to regain custody of their children.

Rethinking Orphanages is a worthwhile attempt to re-evaluate a private institution that has almost disappeared from the American landscape. It is an outstanding collection of well-argued essays that should rekindle interest in a viable private alternative to government bureaucracy that could greatly benefit tens of thousands of needy children. □

Daniel T. Oliver is a research associate at the Washington, D.C.-based Capital Research Center and a freelance writer.

False Dawn:
The Delusions of Global Capitalism
by John Gray
The New Press • 1999 • 262 pages • $25.00

Reviewed by Aaron Steelman

John Gray's new book, *False Dawn: The Delusions of Global Capitalism,* is exasperating. Gray makes big predictions, such as:

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"There can no longer be much doubt that we are approaching a major upheaval in the international economic system. It is a pretty safe bet that, a few years hence, it will be difficult to find a single person who admits ever having supported the global regime which established opinion still insists is immutable." And he bitterly condemns capitalism. "Free markets, the desolation of families and communities and the use of the sanctions of criminal law as a last recourse against social collapse go in tandem," he claims.

But nowhere in the book do we find an argument—at least not a sustained, consistent one. Instead, Gray offers numerous contradictory statements. On one page Gray argues, "Worldwide mobility of capital and production triggers a 'race to the bottom,' in which more humane capitalist economies are compelled to deregulate and trim back taxes and welfare provision." A few pages later, he states, "European capitalisms will continue to differ profoundly from American free markets. No European country—not even the United Kingdom—is ready to tolerate the levels of social dereliction produced by the free market in the United States." Which one is it?

What's more, Gray concedes that, 20 years ago, Great Britain needed to unshackle its economy. "Thatcherite policy was an attempt to impose a much needed modernization on the British economy. . . . British corporatism—the triangular coordination of economic policy by government, employers, and trade unions—had become an engine of industrial conflict and strife over the distribution of the national income rather than an instrument of wealth creation or a guarantor of social cohesion," he writes. But Gray then spends several pages attacking the effects of these "much needed" policy changes. He does a similar about-face when discussing reforms in New Zealand.

Gray's attempts to be on both sides of so many issues would leave the reader confused if it weren't for the highly polemical nature of the book. His vicious swipes at the free market and at the United States—which he argues are synonymous—make it clear where his sympathies lie. *False Dawn* purports to be a case against the global free market. But it's really a broader attack against classical liberalism, or the "Enlightenment project," as Gray calls it.

Gray, a professor at the London School of Economics, was once a classical liberal himself. But he abandoned that position several years and books ago in favor of a rather odd pro-welfare state, pro-green conservatism. *False Dawn* is animated by little more than maudlin sentiment about the supposed victims of capitalism. He concedes that the free market's "productivity is prodigious." But he quickly adds that "so are its human costs."

Free markets, according to Gray, "corrode some of the central institutions and values of bourgeois life." For example, he argues that they contribute to family dysfunction. "How many American households eat together as families? How many children live in the same neighborhoods or cities as their parents? If an American becomes unemployed, can he or she find support from an extended family, as can Spaniards and Italians in European countries?" Gray asks. The obvious answer is that people are free to choose to live as close together as they wish. The wealth that capitalism creates simply gives people more options. It doesn't dictate anything—unlike socialism and its many interventionist cousins.

Gray also states that the traditional career is a casualty of unfettered capitalism. "In traditional bourgeois societies, most middle-class people could reasonably expect to spend their working lives in a single vocation. Few can now harbor any such hope." The result? "Many expect, not without reason, that their incomes may fall in the future," Gray writes. True enough. Job stability is not what it once was, but that is no reason for hand-wringing. Many young people now expect to have a half-dozen different jobs before retiring and understand that there may be a pay cut somewhere along the line. People can and do adjust to variations in income, something that happens under every economic system. Besides, many—maybe most—people find changing jobs to be an exciting and liberating experience, not one filled with dread and anxiety.

At bottom, what bothers Gray about the free market is that it exposes people to risk—the risk of making poor decisions. But classi-

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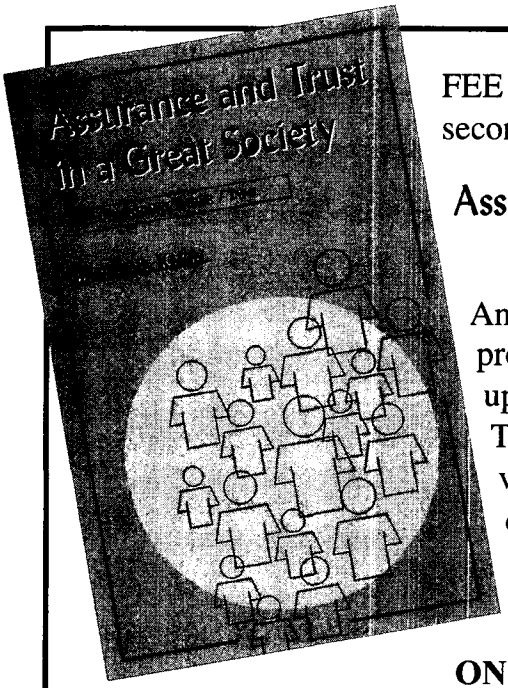
cal liberalism doesn't promise people happiness; it promises them a shot at it. Some people inevitably make bad choices. It is much better to have the liberty to make your own choices than to have to live with the often disastrous and irremediable consequences of choices made by government officials. In making mountains out of molehills in his fervor to discredit "global capitalism," Gray ignores that truth. □

Aaron Steelman is a graduate student in the social sciences at the University of Chicago.



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CAPITAL LETTERS

To the Editor:

In response to Charles Baird's article "Sources of Pro-Union Sentimentality" (*Ideas on Liberty,* March), I would like to respond with a few points overlooked. Although I agree with most of the points brought up by Professor Baird, I think unions do play a legitimate role in the marketplace for several reasons. First, large companies and workers alike both find it to their advantage to secure long-term contracts to counter the fluctuations of the market (just as companies and suppliers of energy, material, and others do). Second, it is certainly more advantageous for companies to have one contract rather than thousands. Third, just as any price negotiated by a company and its other suppliers becomes the market price, the wage negotiated by a company and its union(s) becomes the market wage. Many companies, such as Southwest Airlines, have very harmonious relations with their unions and remain very profitable. Other companies take a more adversarial position to everyone's disadvantage. I agree that the National Labor Relations Act is antiquated and that government intervention is counterproductive, but this is the case in almost all areas of government. As far as individuals committing criminal acts during a strike (or any time), I don't believe that is, or should be, condoned. Finally, unions, like any other entity, will strive to obtain the largest market share (including monopoly) possible. In closing, I think it would be better to examine government's role rather than the existence of unions themselves.

—Henry S. Woodruff III
Golden, Colo.

Charles Baird replies:

First, some firms and some workers may, depending on circumstances of time and place, and for some purposes, prefer long-term to short-term contracts. But long-term contracts involving workers can be made without unions just as long-term contracts involving materials can be made without producer cartels. Second, it is unlikely that companies find it advantageous to have one labor contract rather than thousands. After all, most firms choose to try to remain union-free, and union-free firms are more successful on average than unionized firms. Third, a market price emerges out of a process that involves competition among sellers and competition among buyers. A union exists primarily to eliminate competition among sellers of labor services. Wages set in collective bargaining are no more market prices than the prices that a planning board would announce under a system of market socialism.

Finally, I agree that economists and others should examine government's role in what unions are and what they do. I have nothing against unions comprised of voluntary members who "strive to obtain the largest market share" they can while adhering to the rules of voluntary exchange. What I object to are the special privileges and immunities that government has conferred on unions and that have placed them beyond the rule of law.

We will print the most interesting and provocative letters we receive regarding *Ideas on Liberty* articles and the issues they raise. Brevity is encouraged; longer letters may be edited because of space limitations. Address your letters to: *Ideas on Liberty*, FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533; e-mail: freeman@fee.org; fax: 914-591-8910.

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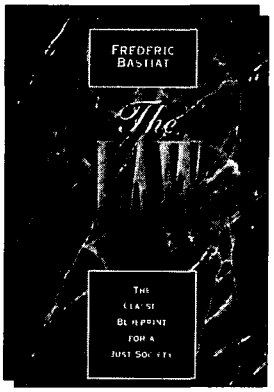

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IDEAS ON LIBERTY
JUNE 2000

Nothing Left to Buy?

America is now in the middle of an unparalleled economic expansion. In the fourth quarter of 1999, the economy grew at the frenetic rate of 6.9 percent. The Dow climbs upward. Even some so-called serious people have started to wonder if the business cycle has been abolished.

I think we'll manage to have a recession someday. But barring a major war or unforeseen catastrophe, the future, meaning the next 20, 50, or 100 years, looks very bright. The source of that optimism is the inexhaustible font of human creativity and innovation channeled by a mostly free-market system. And the system is fueled by a capital market that is richer and more flexible than it has ever been.

All of this is encouraging, but in the modern era, every silver cloud has a dark lining. One of the new concerns of the day can be found in a recent headline in the *New York Times*: "Nothing Left to Buy?" The theme of the article was that with the new riches people are accumulating via the Internet and high-tech go-go stocks, people are running out of things to buy. All the extravagances have been exhausted.

This is not the first story I've read with this theme. The usual example is a Manhattan or Silicon Valley party where the host can't find enough incredible items to awe the guests. There's the ice-carved centerpiece, the rock star hired to entertain the guests, the rented Picassos on the walls, and so on. In the *Times* piece, one older rich guy, worth a mere $890 million, bemoans having to deal with having his own plane. The new guys, the dot-com kids, have fleets of planes. Ah, the vicissitudes of life.

I remember as a young man asking my father what Jackie Kennedy would find of interest about Aristotle Onassis. One factor he mentioned was that Onassis had a lot of money. But doesn't she already have a great deal of it? I asked. Yes, he explained patiently, but more is preferred to less. A giant diamond ring is nice. Two are better. Jetting to an island paradise on a whim is nice. Owning one is better. Or two or three.

This seminal truth about human nature is the central tenet of economics, along with there being no free lunch. Economics is the study of infinite wants clashing with finite resources. Not just very big wants. Infinite wants.

But some people have raised the possibility that even the rest of us, the great unwashed, may find our wants sated by our wealth. At a 3 percent growth rate, income doubles every 24 years. In a mere century, if the economy can grow at the fairly modest rate of 3 percent annually, we'll be 16 times richer than we are now. Sixteen times. Over the past century, real per capita GDP has grown about sevenfold. If we could have avoided the Great Depression and a few other economic potholes, we could have managed that 16-fold increase over the past 100 years. Surely, claim the pundits, if we were 16 times wealthier than we are now, we'd

Russell Roberts (roberts@csab.wustl.edu) is an economist with the Center for the Study of American Business at Washington University in St. Louis.

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all be left trying to figure out what way-out chic décor we could add to our parties. We'd have solved the economic problem of infinite wants and finite resources. We'd have everything we could possibly want. Food, clothing, and housing would take a tiny fraction of our income, and we'd spend the rest on empty toys and impressing our guests with our decadence.

Every Man a Gates

Steven Landsburg in his book *Fair Play,* notes that at even 1.5 percent annual growth in real income, in 600 years the average American family will live as well as Bill Gates, on about $2 million a year. And that's $2 million in today's dollars, not inflated ones. Most folks find this calculation absurd, but as Landsburg points out, the average family of today lives better than the richest king of the year 1400.

The king's meals may have been served on gold plates, but he didn't have a flush toilet or penicillin or a microwave, let alone a car or a VCR or an iMac. Those meals on the gold plates probably had more bacteria and with his arteries choked with cholesterol from all that mutton, he died young. Cardiology in those days was a bit primitive.

But if we could all live like Bill Gates, won't we be just sitting around with nothing to buy except a few wild indulgences? Will all our economic problems be solved?

To see the absurdity of this claim, go back 600 years ago to a shepherd on the land of that wealthy king. Imagine telling him that the average man in 600 years would live better than a king. Well, he'd ask, what would he spend his money on? You'd have everything. What would you buy, a gold shepherd's crook? A roof with extra thatch? Twice as many sheep? It would be impossible to spend all that money!

Today, we're in the same darkness with respect to the future as that shepherd. He couldn't possibly imagine what the world would be like in 600 years, and neither can we. What will we spend our money on when we all make $2 million per year? I don't know but it will be pretty amazing stuff. It will be whatever human creativity manages to come up with in the next 600 years. New medical devices, new entertainment products, new ways to travel, to live, to share information, to sing, to dance, and to dream.

Most of us probably won't be around to enjoy it, but who knows? Maybe we'll grow faster than 1.5 percent and get there sooner. And some of those innovations will surely extend our life spans, even possibly in ways that make being old a lot more pleasant than it appears to be now. I can't wait. □

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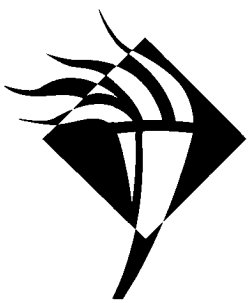

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"The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."

—FREDERIC BASTIAT (1801-1850), "The State"

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